# EFFECT ON SMALL BUSINESSES OF THE MEXICAN PESO DEVALUATIONS AND ASSOCIATED EXCHANGE AND BANKING RESTRICTIONS

## HEARINGS

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS

OF THE

## COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

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WASHINGTON, D.C., SEPTEMBER 29, AND SAN DIEGO, CALIF., NOVEMBER 8, 1982

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# EFFECT ON SMALL BUSINESSES OF THE MEXICAN PESO DEVALUATIONS AND ASSOCIATED EXCHANGE AND BANKING RESTRICTIONS

WEDNESDAY, SEPTEMBER 29, 1982

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9 a.m, in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

## OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. The hearing will come to order.

The subcommittee will conduct hearings to examine the very serious impact of the current peso devaluation crisis on small business along the Mexican-American border and the recently introduced legislation to counter this very difficult economic dislocation.

We will hear from the sponsors of this important legislation on this critical situation, and from the Small Business Administration for the agency's response and assessment of what should be done.

Two weeks ago, I instructed committee staff to survey U.S. cities and towns along the Texas border with Mexico to examine the impact on American small businesses of the Mexician Government's currency devaluation and restrictions.

Due to time limitations, it was impossible to make a similar investigation of the situation in Arizona, New Mexico, or California. Nor was it possible to survey all of the Texas communities or do an indepth evaluation of those communities visited.

Something very strange is occurring in California that may require that we have a field hearing in California. There is a great disparity between the SBA loan applications in Texas and those in California.

I see Tom Powers is here, he was the staff man who did a splendid job getting the background information for this hearing.

The U.S. border with Mexico is some 1,800 miles in length and includes the borders of four States: Texas, New Mexico, Arizona, and California. The Mexican communities on the other side of this border include some 2.5 million residents. These Mexican communities have been isolated from the delivery of goods from central Mexico. They have relied to a large extent upon U.S. manufacturers, wholesalers, and retailers in the border regions. Particularly

during the last half dozen years, many U.S. border companies appear to have prospered and developed in order to serve the Mexican markets.

The previous administration in Mexico devalued the peso by 40 percent in 1976. This devaluation caused a sharp decline in business by American firms situated along the Mexican border. In order to provide needed working capital to these firms while adjustments were being made to the peso devaluation, Representative de la Garza introduced H.R. 3333 in the 95th Congress. The provisions of this bill were incorporated in H.R. 692 which was subsequently enacted as Public Law 95–89. This amendment permitted direct SBA loans of up to $100,000, at an interest rate of about 6½ percent based on a formula involving the cost of money to the Federal Government, to small businesses which suffered substantial economic injury as a result of economic dislocation, including currency devaluations. However, as part of the 1981 Reconciliation Act, this loan program was abolished.

The legislation before us today would reinstate that economic dislocation loan program.

The present economic crisis began on February 17, when the Bank of Mexico announced that it would no longer intervene to support the peso. The result was a 50-percent devaluation of Mexico's currency.

In early August inflationary fears increased, and a new run on the peso began. On August 5, the Government announced a new system of dual exchange rates. Dollars from oil exports and foreign loans would be made available at a "preferential" rate to pay interest on foreign debts and to import vital goods, Dollars needed for anything else would have to be bought on the free market. The "preferential" rate was set at 50 pesos to the dollar. On the open market, the dollar initially increased to 85 to 90 pesos.

Mexico, having devalued its peso by over 65 percent so far this year, may face the additional burden of up to 100-percent inflation in 1982.

On September 1, the Mexican Government nationalized its banks, and announced a general plan of exchange controls designed to block the flight of hard currency from the country. There followed a series of unpredictable and contradictory actions which have hopelessly confused Mexican-American commerce. As a result, Mexicans do not have dollars to pay accounts receivable at U.S. merchants or to buy U.S. goods.

On August 31, the Small Business Administration announced that it had devised a special $200 million "peso pack" to aid American small businessmen along the United States-Mexican border during Mexico's present currency crisis.

This $200 million program actually is comprised of only the $167 million direct and guaranteed loan authority available during the balance of this fiscal year under SBA's 7(a) loan program in the Dallas and San Francisco regions which serve eight States, plus Guam. Of this $167 million, $21 million is available in direct loans, and $146 million is in loan guarantees. "Peso Pack" is merely using part of the regular business loan program to assist with this problem, although their announcements do not so state, with the

interest rate being 14¾ percent for direct loans and 15 to 16 percent for guaranteed loans.

[The bills H.R. 7022, 7070, and 7160 follow:]

I

97TH CONGRESS
2D SESSION

# H. R. 7022

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

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IN THE HOUSE OF REPRESENTATIVES

AUGUST 19, 1982

Mr. DE LA GARZA (for himself, Mr. WHITE, Mr. KAZEN, and Mr. LOEFFLER) introduced the following bill; which was referred to the Committee on Small Business

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# A BILL

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 7(b) of the Small Business Act is amended by—

(1) striking out the period at the end of paragraph (2) and inserting in lieu thereof a semicolon;

(2) striking out the period at the end of paragraph (3) and inserting in lieu thereof "; and"; and

(3) adding after paragraph (3) the following new paragraph:

"(4) To make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasonable terms. Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration shall permit deferral of payment

of principal and interests for one year on loans made hereunder.".

I

97TH CONGRESS
2D SESSION

# H. R. 7070

To amend the Small Business Act to restore the authority to make loans for economic dislocation and to clarify that such dislocations include foreign currency devaluations.

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IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 8, 1982

Mr. UDALL introduced the following bill; which was referred to the Committee on Small Business

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# A BILL

To amend the Small Business Act to restore the authority to make loans for economic dislocation and to clarify that such dislocations include foreign currency devaluations.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) subsection (b) of section 7 of the Small Business Act (15 U.S.C. 636) is amended by inserting after paragraph (3) the following new paragraph:

"(4) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to

be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation.

"(A) The Governor of a State may certify to the Administration that—

"(i) small business concerns within the State have suffered substantial economic injury as a result of an economic dislocation, and

"(ii) such concerns are in need of financial assistance which is not available on reasonable terms.

"(B) For purposes of this paragraph, economic dislocation includes—

"(i) extraordinary, severe, and temporary natural conditions,

"(ii) foreign currency devaluations, and

"(iii) other economic dislocations as determined by the Administration.

Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become in-

solvent or be unable to return quickly to their former level of operation.

"(C) No loan made under this paragraph shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender.

"(D) The Administration shall permit deferral of payment of principal and interest for 1 year on loans made under this paragraph."

(b)(1) Paragraph (7) of section 20(k) of the Small Business Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(2) Paragraph (7) of section 20(n) of such Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(3) Paragraph (7) of section 20(q) of such Act is amended by striking out "and 7(b)(2)" and inserting in lieu thereof ", 7(b)(2), and 7(b)(4)".

(c) Paragraph (1) of section 4(c) of such Act is amended by inserting "7(b)(4)," after "7(b)(3),".

(d) The amendments made by this Act shall apply to economic dislocations certified by any State Governor to the Small Business Administration after the date of the enactment of this Act.

I

97TH CONGRESS
2D SESSION

# H. R. 7160

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

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IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 22, 1982

Mr. EDWARDS of California (for himself, Mr. ANDERSON, Mr. BEILENSON, Mr. BROWN of California, Mr. JOHN L. BURTON, Mr. COELHO, Mr. DELLUMS, Mr. DIXON, Mr. DYMALLY, Mr. FAZIO, Mr. HAWKINS, Mr. LANTOS, Mr. MARTINEZ, Mr. MATSUI, Mr. MILLER of California, Mr. MINETA, Mr. PANETTA, Mr. PATTERSON, Mr. ROYBAL, Mr. STARK, Mr. WAXMAN, and Mr. PHILLIP BURTON) introduced the following bill; which was referred to the Committee on Small Business

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# A BILL

To amend the Small Business Act to provide assistance to areas of economic dislocation in the United States that is the result of drastic fluctuation in the value of the currency in a country contiguous to the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 7(b) of the Small Business Act is amended by—

(1) striking out the period at the end of paragraph

(2) and inserting in lieu thereof a semicolon;

(2) striking out the period at the end of paragraph (3) and inserting in lieu thereof "; and"; and

(3) adding after paragraph (3) the following new paragraph:

"(4) To make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance the existing indebtedness of, any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasonable terms. Such economic dislocations must be of such magnitude that without the benefit of loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other

lender. The Administration shall permit deferral of payment of principal and interests for one year on loans made hereunder.".

Mr. MITCHELL. On August 19, 1982 Congressman de la Garza (with Congressmen White, Kazen, and Loeffler as cosponsors) introduced H.R. 7022 which basically would reinstate SBA's economic dislocation loan program and permit direct loans of up to $100,000 with a mandatory 1-year deferral of repayment of principal and interest. The legislation does not specify the term of the loan nor the interest rate but contemplates the general 30-year maximum term of other SBA disaster loans and an interest rate of approximately 8 percent.

On September 8, Congressman Udall introduced H.R. 7070, and on September 22, Congressman Edwards of California (with 21 cosponsors) introduced H.R. 7160. Basically, both would reinstate SBA's economic dislocation loan program.

The staff field investigators visited several cities in Texas. Some of these were McAllen, Rio Grande City, Laredo, and El Paso. During these visits they met with local SBA officials, mayors, other government officials, bankers, and small businesses. It was found that Mexican shoppers in these localities were extremely few in number. Specific discussions with individual small businesses indicated that sales were off in varying degrees.

The devaluation of the peso to an official rate of 70 per U.S. dollar, and the inability of Mexican nationals or U.S. businesses to convert pesos to dollars in Mexico virtually dried up the availability of U.S. dollars for Mexican nationals to spend. The direct impact may be at its worst. However, the indirect impact will worsen as it ripples through the economy of the affected States.

A representative of the Texas Industrial Commission reports that during the period of August 6 through September 17, the commission had identified 1,825 unemployment claims as being specifically attributable to the lack of business resulting from the peso devaluation and the exchange freeze. Unemployment will certainly worsen. Many merchants have not yet reduced their employment in the same magnitude as they have lost sales. Many will be making such deeper cuts unless their sales improve very soon.

The universal plea was that a way must be provided for merchants to convert their pesos to dollars. Looking to the Federal Government for assistance, the oft-repeated suggestion was that the Federal Reserve or the Department of the Treasury buy pesos. The key was that merchants have a set exchange rate that the U.S. businesses could be certain of receiving. Given the unavailability of bank credit for most small businesses, the only avenue now existing to provide such assistance is under the SBA direct loan program.

We will ascertain today why the Dallas region (which includes Texas and New Mexico) has received so many more applications for assistance than the San Francisco region (which includes California and Arizona). It appears that by close of business on September 30, when the fiscal year expires, at the present rate SBA will have approved less than $10 million of direct loan assistance. There is no reason to believe that there will be any more than a handful of guaranteed loan approvals.

Next year, of course, is another matter. The Reagan administration has requested the elimination of all direct business loans and the matter has yet to be resolved. The bill reported by the House

Appropriations Committee includes $85 million for regular business direct loans, that is down from $120 million last year. Part of this would be used to assist small businesses hurt by the peso devaluation or the exchange freeze.

I also note that although SBA is charging 14¾ percent interest on direct loans being made under the regular business loan program, this rate is based on a formula which imposes a maximum on the amount SBA may charge. Under existing law, the agency certainly has the discretion to reduce this rate if it so desires under section 7(a)(4) of the Small Business Act. We also note that under existing law SBA has the authority to grant deferments or moratoriums on the repayment on existing loans for up to 5 years under section 5(e) of the Small Business Act.

I am very, very honored that we have a distinguished panel to give testimony this morning and certainly we welcome you.

I would ask if any members of the subcommittee have an opening statement? Mr. Hiler?

Mr. HILER. No. Thank you, Mr. Chairman.

Mr. MITCHELL. I would also like to indicate just before we hear from our witnesses here today that we have requested statements from academicians, business, and civic leaders who could not be here today. They will be submitted for the record.

We thought it best to proceed very quickly with this hearing in light of the emergency situation that does exist.

[The prepared statements referred to above follow:]

PREPARED STATEMENT OF DR. GILBERT CARDENAS, PROFESSOR OF ECONOMICS, PAN AMERICAN UNIVERSITY, EDINPURG, TEX.

My name is Dr. Gilbert Cardenas. I am a Professor of Economics at Pan American University located in Edinburg, Tex. I teach various courses in labor economics, international economics, and international business. As a labor economist, I do extensive research on various problems of unemployment and inflation. Among my research interests include the U.S.-Mexico border, illegal immigration, the Mexican economy and the peso devaluation impact in border labor markets. I am here to address members of the Committee on Small Business about the current Mexican economic crisis and the impact it has had on the U.S.-Mexico border, particularly, the Lower Rio Grande Valley in Texas.

The southwestern border region is characterized by major metropolitan areas, that include San Diego, El Paso, Laredo, McAllen-Pharr-Edinburg and Brownsville-Harlingen-San Benito. These metropolitan areas are isolated geographically and economically from major metropolitan areas like Los Angeles, Houston, and Dallas. The border regional labor markets have not enjoyed the economic wealth and prosperity of major cities. In terms of national standards, the labor markets are generally poor in terms of composition, employment, and wages. Agriculture and retail trade constitute the economics of these labor markets. Manufacturing is prevalent to a lesser extent. In the 1980's, the border region was among the fastest growing regions in the country. Over 4 million people reside along the U.S.-Mexico border today. For many years, the border region has been characterized by its multitude of problems, that include high unemployment, poverty, and the lack of economic development. Numerous economic developments in the nation and the southwest have had an impact on the border region. More importantly, the Mexican economy has played a vital role in the economic development of the border region in the contemporary setting.

Among the major characteristics of the region were the population gains experienced over the last decade. The fastest growing urban areas along the border were in the Lower Rio Grande Valley of Texas. The McAllen-Pharr-Edinburg and Brownsville-Harlingen-San Benito area increased by 54.2 percent, and 48.3 percent in population between 1970 and 1980. The population for the McAllen SMSA was 279,000 and 208,000 for the Brownsville SMSA in 1980. The population gains were largely attributed to natural increases, sunbelt migration, and the flow of legal and

illegal immigrants from Mexico. Average annual unemployment rates for the region are among the highest in the southwest and nation. The average annual unemployment rate for 1980 was as high as 13.6 percent in the McAllen-Pharr-Edinburg area as compared to 10.1 percent for the Brownsville-Harlingen-San Benito SMSA. The unemployment rate in San Diego of 6.6 percent was much lower. Per capita personal income in the border region is also among the lowest in the nation. Per capital personal income in 1979 varied from $8,908 for San Diego, $6,201 for El Paso, and $5,024 for McAllen-Pharr-Edinburg. Educational attainment has also been generally unfavorable for the region with low median years of education of 7.3 years recorded in the McAllen area and 8.6 years for the Brownsville area. The border region is also characterized by its large Hispanic population, mostly Mexican-Americans.

In the last few years, the border region was experiencing economic prosperity in employment and income. With the growth of product and labor markets and efforts to diversify the economic base, the region was experiencing gains in retail sales, personal income, and employment. Business activity was up because of increased international trade between the U.S. and Mexico along the border. Personal income in San Diego between 1978 and 1979 has increased by 16.6 percent to $16.0 billion reported in 1979. For the same period, total personal income increased by 15.1 percent in McAllen-Pharr-Edinburg and 14.1 percent in the Brownsville-Harlingen-San Benito area. Total personal income in 1979 was $1.2 billion and $1.0 billion for the McAllen and Brownsville areas, respectively. Retail sales in the McAllen-Pharr-Edinburg area increased from $549 million to $948 million, up 38 percent; this compares to Brownsville-Harlingen, San Benito where retail sales increased from $557 million to $690 million, an increase of 29.8 percent between 1979 and 1980.

Through the years, the economy of Mexico has played a vital role in the development of the U.S.-Mexico border. Trade between the U.S. and Mexico has been beneficial to both countries. The economic relationship between the border region and Mexico encompasses much more than trade. Oftentimes, developments in the Mexican economy have their final repercussions on the border labor markets and the southwest. The economic problems faced by Mexico such as unemployment, inflation, and overpopulation make their way to American border communities because of the economic interdependence that exists between and among border markets. Today, the peso devaluations of 1982 and the current Mexican economic and financial crisis have had severe consequences on the border region and the southwestern U.S. retail trade, income, and unemployment. The current Mexican financial and economic crisis was attributed to a combination of factors. The ever-increasing high rate of inflation in Mexico which had climbed to 30 percent in 1981, and is as high today as 60 percent, has made Mexican goods less competitive in the world market. The reduction of revenues from sales of Mexico's crude oil exports associated with the world oil glut situation has had a deleterious effect on the Mexican economy because such revenues were needed to finance Mexican economic growth and expansion. Because of the high rate of inflation and Mexico's foreign competitive position, exports from Mexico and tourism were also down. The world economic recession, high interest rates, and anti-inflation efforts in respective industrial nations also have indirect consequences in Mexico. The economy of Mexico had experienced economic growth rates of 6 to 8 percent in the last few years, as compared to countries like the U.S., France, and West Germany who experienced much lower growth rates of 1 or 2 percent at the expense of controlling inflation. Another reason for the devaluation was the continuing flight of capital from Mexico which had reached an all time high. Mexican residents were not only using their monies for the buying of consumer goods but also for worthwhile investments in real estate and growth industries along the border and major cities like Dallas, Denver, New York and Chicago. The Mexican government reacted quickly to alleviate the economic crisis by initiating numerous measures in the form of: (1) development of a two-tier fixed exchange rate system; (2) the freezing of dollar accounts in Mexico; (3) a restrictive system of exchange controls; and (4) the nationalization of the banking industry.

The peso devaluations of 1982 and current government policies are creating undue hardship for the economics of the border region. The impact of these developments has been one of direct and indirect consequences along the U.S.-Mexico border. The decline in international traffic between Mexican and American border cities has significantly reduced retail trade along the border region. The peso devaluation has put a big strain on companies with not dollar but peso revenues. The fact that Mexican residents have been unable to purchase consumer goods because of the lower purchasing power of the peso has reduced the aggregate demand for goods and services in the border regions. The economic boom throughout the border region has been dampened by the gloom and consequences of the peso devaluation. The rate of joblessness is anticipated to increase significantly even higher than

record high levels. The national economic recession has also finally hit the southwest and Texas and the U.S.-Mexico border. With all these developments, the future outlook for the border region is very critical. Federal cutbacks in economic development and other domestic programs have also had a severe impact on the border region.

Among the areas that have been hit the hardest by the peso devaluation is the McAllen-Pharr-Edinburg area. The major industries that have been hurt by the peso devaluation include wholesale and retail trade and real estate. Indirectly, other industries in the cities have experienced slower economic activity. With respect to the wholesale and retail trade, many businesses, particularly in downtown McAllen, have experienced severe losses in retail sales. Among 75 businesses surveyed in the McAllen area, of which the majority were in wholesale and retail trade, it was learned that more than 85 percent of the businesses had experienced declines of retail sales of 90–95 percent between August and September 1982. The majority of the firms reporting had reduced their work forces by 50 percent. The businesses in the McAllen area are experiencing severe problems in retail sales, inventories, payment of wages, loss of hours, and the possibility of bankruptcy if the economic conditions do not improve. The unemployment lines in the McAllen-Pharr-Edinburg area are already long and increasing significantly with the unemployment rate in the McAllen-Pharr-Edinburg increasing to nearly 20 percent in September, from 14.5 in August 1982. With the loss of international traffic, local governments like McAllen and Hidalgo have also experienced losses in revenues. In some instances, the cities may have to curtail employment through cutbacks in programs and services, and the unemployment queue will continue to get larger and larger. The indirect consequences of the peso devaluation are likely to be felt in the coming months as the lack of income among residents may have a multiplier effect on other businesses not related to Mexican trade.

Among the types of businesses that have been hurt by the devaluation include the automotive supplies, food, clothing, and department stores. Merchants in the downtown area and La Plaza Mall and other shopping center nearest to Mexico have been hurt significantly. Other industries such as real estate, construction, and finance have also been hurt but not as much as wholesale and retail trade. Both small and large businesses have been hurt in similar ways. The impact of the devaluation on small businesses and larger business is dependent on the financial condition of the business enterprise. Small business and newer businesses who have higher interest loans and greater relative fixed and variable costs may be potential candidates for bankruptcy if they cannot recover losses in sales. Larger businesses may also have a disadvantage also because of the amount of inventories and overhead costs.

The implications of the peso devaluation to border labor markets like McAllen are very serious. Businessmen are trying to make ends meet but the unfavorable economic conditions caused by the peso devaluation are creating undue hardship on the business community. The current system of exchange controls is also making business activity very difficult because businessmen may want to accept pesos for sales but the Mexican government cannot buy such pesos for dollars. Many businesses had Mexican accounts but cannot recover payment for these accounts because the Mexican government will not allow Mexican residents to make such payments in dollars. The end result of the economic crisis is that trade between the U.S. and Mexico along this border is virtually at a standstill.

It is important that the federal government declare the border region as an economic disaster area with the provision of low interest loans for businesses severely affected by the peso devaluation, as had been done in 1976 by the Small Business Administration. There is a need to make the appropriate changes in the law to provide such loans. It is also important for the federal government to intervene internationally at the appropriate levels to alleviate the system of exchange controls by the Mexican government that has systematically paralyzed economic conditions along the U.S.-Mexico border. Wherever necessary and appropriate, the Small Business Administration at the regional level should be provided with more resources for loans and manpower to provide technical assistance, training and development, and loans for small businesses.

#### PAN AMERICAN PROFESSOR ADDRESSES SBA DIRECTORS MEETING ON BORDER CRISIS

Dr. Gilbert Cardenas, Associate Professor of Economics at Pan American University addressed Small Business Administration officials from Region VI that encompasses Texas, Louisiana, Oklahoma, Arkansas, and New Mexico on the peso devaluation and the Mexican economic crisis. Dr. Cardenas who has done extensive work

on economic problems along the U.S.-Mexico border gave a presentation on the Mexican economic crisis and the peso devaluation impact along the U.S.-Mexico border. He outlined the current economic situation in Mexico and the causes of the peso devaluation. Dr. Cardenas thereafter evaluated the economic impact of the peso devaluation on the border region from San Diego, California to Brownsville, Texas. Dr. Cardenas indicated that the peso devaluation and current financial crisis in Mexico has created undue hardship on business activity not only along the border but also the southwest and major markets like Houston, Dallas, and San Antonio. He indicated that current Mexican governmental policies of exchange controls have created more confusion and complications in promoting trade along the U.S.-Mexico border and Mexico.

Dr. Cardenas said that the causes of the peso devaluation were attributed to: (1) the high rate of inflation in Mexico which has increased from 30 percent in 1981 to 65 percent today; (2) the world economic recession and anti-inflationary policies of industrialized nations like the U.S. and Western Europe indirectly affected the Mexican economy; (3) the balance of payment difficulties in Mexico associated with greater imports over exports there; (4) the world oil glut situation and the impact it had on reducing oil revenues from Mexican exports which were needed to finance Mexican growth and expansion; and (5) the continuing flight of Mexican capital to the U.S. communities in the form of retail sales and investments in real estate and other growth industries.

Dr. Cardenas emphasized the role that the Mexican economy had played in the overall development of the border region, and how the region in the last decade had experienced significant economic prosperity as a result of Mexican trade. "The border region experienced significant economic growth in terms of retail sales, total personal income, and population in the last few years. However, the economic boom has been dampened by the impact of the peso devaluation. The current system of exchange controls have made convertibility of pesos to dollars nearly impossible, and this has made it very difficult for our businessmen to promote trade with Mexican residents," Dr. Cardenas said.

"The impact on local business activity has been very critical. In the case of the valley businesses, numerous firms in downtown McAllen and Brownsville have shown retail sales to be down as much as 85 percent to 90 percent from August, 1982. Among the other problems that valley businessmen in wholesale and retail trade have had associated with the devaluation include cash flow problems, inventory surpluses, layoffs and financial difficulties in meeting payments on loans, and payrolls. Mexican governmental policies are making it very difficult for economic conditions in the valley to stabilize and for Mexican shoppers to come to our border communities. The current financial crisis in Mexico if not changed soon will prolong the economic recovery throughout the valley," Dr. Cardenas commented.

"The Mexican government has indicated that exchange controls will be eased along the U.S.-Mexico border, and directives on this should be coming very soon from Mexico. With the approval of the International Monetary Fund loan to Mexico, it is certain that the exchange controls will be eased soon. Also, a condition for the loan may be such that the Mexican government will have to alter its policy regarding the freezing of dollar accounts. These actions, if introduced soon, would be great news for our businesses along the border, and economic recovery could begin sooner than expected," Dr. Cardenas said.

Dr. Cardenas indicated that "every effort must be made at the Federal, State, and local levels to develop a mechanism to alleviate the economic crisis through the border region. The businessman and the community need the help now or as soon as possible. Small Business Administration officials should continue to provide able assistance to our merchants wherever appropriate and should also assist in the development of low interest packages through changes of the legislation. Federal officials should also work with the Mexican government officials to share common concerns at the local level."

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CITY OF BROWNSVILLE,
*Brownsville, Tex., September 27, 1982.*

Hon. ELIGIO (KIKA) DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR CONGRESSMAN DE LA GARZA: As per our recent communications with members of your staff, contained herein is information which we feel is pertinent to testimony being conducted by the U.S. House Committee on Small Business on H.R. 7022. In addition, attached please find a previous correspondence to you and dated

September 17, 1982 which provided you with a general perception of the results of the Task Force hearing on the impact of the peso devaluation on U.S.-Mexico border cities which was held in Brownsville on Wednesday, September 15, 1982. While the results of the Task Force hearing will be entered into public record, we wish to reiterate the sentiment that was generally expressed at the hearing: the need for government guarantee of the peso exchange market along the border, and the need for immediate economic disaster loan assistance.

As you are well aware, there is a great deal of concern along the border over the graveness of the economic situation. In an effort to provide you with concrete information depicting the impact of the peso devaluation on the border economy, we have amassed information which provides an indication as to the severity of the peso devaluation.

We conducted a survey of various retail establishments in the Downtown area in our attempt to gauge the impact of the peso devaluation on retail sales. Table 1 illustrates total sales over a comparable two-year period and includes Total Sales, dollars Increase (Decrease), and percent Increase (Decrease) on a month-by-month comparison of that two-year period.

TABLE 1

| Month | 1981 | 1982 | Increase (Decrease) | Percent increase (Decrease) |
|---|---|---|---|---|
| January | $813,533.73 | $1,370,890.74 | $558,357.02 | 69 |
| February | 1,457,316.24 | 2,693,747.37 | 1,236,431.13 | 85 |
| March | 1,894,526.44 | 1,330,437.89 | (564,088.55) | (42) |
| April | 2,116,739.50 | 1,635,778.76 | (480,960.74) | (30) |
| May | 2,089,146.72 | 1,635,899.53 | (453,247.19) | (28) |
| June | 2,075,144.40 | 1,314,873.68 | (760,270.72) | (58) |
| July | 2,461,045.93 | 1,373,844.85 | (1,087,201.08) | (79) |
| August | 3,010,523.36 | 679,628.66 | (2,330,894.70) | (343) |
| Total | 15,917,976.31 | 12,035,101.48 | (3,887,874.83) | (32) |

Please note the continued decrease in retail sales from the initial peso devaluation in February, 1982 of 42 percent to an alarming 343 percent in August of this year. This tremendous decrease in retail sales resulted from the major peso devaluation on August 6, 1982. We feel that this is a good indication of what the future will hold especially when one stops and considers that September of this year was when the government of Mexico imposed heavy controls on the peso in an attempt to discourage the flow of pesos outside of Mexico.

As indicated by table 1, retail sales were substantially below that of retail sales from the previous year. This in turn affects the employment of persons in the retail business. Table 2 illustrates the impact on employment for those businesses surveyed. The information describes the nature of the retail business, total employees prior to the peso devaluation, total employees as of August 1982, and percent decrease in employment.

TABLE 2

| Type of business | Number of employees | | Decrease | |
|---|---|---|---|---|
| | January 1982 | August 1982 | Percent | Employees |
| Men's, women's and children's Clothing (9) | 101 | 55 | 46 | 46 |
| Grocer and supermarkets (1) | 57 | 48 | 16 | 9 |
| Pharmacy (1) | 7 | 5 | 29 | 2 |
| Farm and ranch supply (1) | 27 | 10 | 63 | 17 |
| Retail hardware (1) | 28 | 19 | 32 | 9 |
| Auto accessories (1) | 6 | 2 | 66 | 4 |
| Variety shop (1) | 8 | 3 | 62 | 5 |
| Furniture retail (1) | 33 | 21 | 36 | 12 |
| Electronics retail (1) | 50 | 24 | 52 | 26 |
| Total | 317 | 187 | 41 | 130 |

As illustrated in table 2, employment in the seventeen (17) retail establishments surveyed is down 41 percent from a total of 317 employees in January, 1982 to a total of 187 employees in August of 1982. Not only was employment reduced by 130 employees, but all of the retail establishments informed us that many employees had been reduced to part time status and that many others had hours reduced in an effort to curb employee layoffs. As you are well aware, unemployment in the Lower Rio Grande Valley is well above that of the State and National Average. Table 2 is just a small indication of unemployment among those retail establishments surveyed and does not illustrate the pervasive impact on the other businesses and industries impacted by the peso devaluation.

The city of Brownsville is losing revenue daily through decreased retail sales activity. Prior to the peso devaluation in February 1982, we were projecting sales tax revenues in excess of $6 million in 1982 and $7.9 million in 1983. These projections were based on previous years' trends (1978–1981) of an annual 30 percent increase in sales tax revenues. However, the current projections for sales tax revenues have been reassessed and we now project receipt of sales tax revenues in 1982 of $4 million; a decline of over $3 million. Table 3 below shows sales tax receipts for a comparable two-year period.

TABLE 3

| Month | 1979–80 | 1980–81 | 1981–82 |
|---|---|---|---|
| October | $146,126 | $202,849 | $285,500 |
| November | 184,141 | 599,044 | 825,488 |
| December | 440,647 | 233,472 | 304,184 |
| January | 166,790 | 225,734 | 259,921 |
| February | 223,322 | 705,440 | 837,537 |
| March | 501,250 | 275,297 | 432,175 |
| April | 161,597 | 166,957 | 224,262 |
| May | 267,808 | 725,668 | 691,582 |
| June | 435,088 | 196,540 | 200,958 |
| July | 151,222 | 225,730 | 217,615 |
| August | 253,219 | 754,668 | 636,811 |
| September | 149,667 | 324,572 | 296,664 |
| Total | 3,080,879 | 4,635,971 | 5,212,697 |

As illustrated in table 3, the City realized a 34 percent increase in sales tax revenue from 1979–80 to 1980–81. However, the increase the following year is only 11 percent. This in effect represents a loss in sales tax revenues for the City given the fact that prior year sales tax receipts had been increasing by approximately 30 percent annually. We anticipate a loss in sales tax revenue for 1982–83 by an estimated 20 percent to 30 percent over the current year. This is particularly important when one realizes that sales tax revenues comprise approximately 35 percent of the City's general operation revenues.

The general impact of the peso devaluation on the community cannot be comprehensively portrayed at this time. We in Brownsville know that the impact is ubiquitous. For example, new listings for residential properties in Brownsville have reached an all-time high. Sources in the real estate industry inform us that Mexican nationals, legal residents and/or persons affected by the reductions in the general employment of the variety of business cannot fulfill their mortgage obligations and thus resulting in an increased number of homes on an already depressed housing market. Export of agricultural products, sale of heavy machinery, equipment and automobiles are all down. Hotel and motel occupancy rates are down. Enrollment in

the private day care centers, nurseries, and schools has dropped. Those businesses affected are too numerous to mention.

As was stated in this correspondence, the need for immediate assistance is paramount. We hope that the information provided herein, though brief, will prove conclusive that the impact of the peso devaluation on border communities is indeed a real reason for concern at the national level. We support your efforts to amend the Small Business Act and we will continue to keep you abreast of the extent of the impact of the peso devaluation on our City.

Respectfully yours,

EMILIO A. HERNANDEZ, *Mayor.*

Enclosures.

CITY OF BROWNSVILLE,
*Brownsville, Tex., September 17, 1982.*

Re task force hearing on the impact of the peso devaluation on border cities.

Hon. ELIGIO (KIKA) DE LA GARZA,
*House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN DE LA GARZA: This correspondence serves to congratulate you on your efforts to provide legislation that would make assistance available to areas hurt by the peso devaluation. Furthermore, I wish to personally thank you for arranging the above referenced hearing and to express to you the concern of the community over the graveness of the economic situation along the border. Generally, I was extremely pleased with the valuable input provided at the hearing by the community. There was a wide spectrum of interests represented at the hearing ranging from businessmen to bankers, real estate agents to engineers, furniture retailers to used car dealers, and the sentiment expressed by all was tantamount; immediate relief for the current peso exchange market. The community cannot operate if the peso cannot be traded. Local merchants will be effectively forced out of business if they cannot accept pesos, thus, affecting every aspect of community life.

It was wholeheartedly recommended that the Federal Reserve System provide some form of guarantee for the exchange of pesos along the border. In turn, the Federal Government could transact business with Mexico with the pesos it collects through the Federal Reserve System. However, this type of action must be initiated immediately and we realize that it is not the panacea that will cure all ills of the peso devaluation.

The other major concern that I must emphatically impress upon you is the need for immediate assistance. If something is not done in the very near future, there will not be very many businesses that will be around to enjoy the fruits of your labor simply because they will not be in existence. That is how critical the situation is along the border.

In closing, I would like to assist you in any means possible to expedite and ensure concrete action on the Federal level to assist the border areas. We were informed that the House Committee on Small Business will hear testimony on Wednesday, September 29, 1982, on H.R. 7022. In this regard, I have enclosed newspaper articles which illustrate the effect of the peso devaluation since February of this year in hopes that it may prove useful to you. Furthermore, I am at your disposal should you deem my assistance necessary for the upcoming House Committee hearing. Please do not hesitate to call upon me should you be in need of additional information.

Your gracious servant and friend always,

EMILIO A. HERNANDEZ, *Mayor.*

Enclosures.

PESO EXCHANGE NEEDED BY BROWNSVILLE STORES

(By David Hancock)

The need for a federal peso-exchange program was the most pressing concern that businessmen chose to send to Washington legislators this morning during an open forum for border businessmen affected by Mexico's actions this year.

About 50 businessmen were present at the city commission chambers at City Hall to convey their peso-devaluation concerns to Tom Powers, a general counsel for the House Committee on Small Business. Powers is in Brownsville to collect information for possible legislation to help the border.

Businessmen voiced their concern over the glut of pesos in Brownsville, now that local banks are not exchanging the Mexican currency. Brownsville banks are unable to sell their pesos to Mexican banks for dollars, and for the most part have quit

exchanging pesos from local merchants. In an effort not to be overloaded with pesos, many merchants have been selling the peso for a higher rate than what they accept it for purchases, ranging from 80 to 100 pesos to the dollar.

"Border trade is dependent on the ability of businessmen to exchange the pesos," said Steve Bosio, manager of the Brownsville Chamber of Commerce.

Bosio said the U.S. government should set up a fund to give businessmen dollars for their pesos at the 70-to-$1 rate fixed by the Mexican government. The measure has been suggested by businessmen in other border towns.

"This will go further than anything else," Bosio said. Jorge Gonzales, a manager for Edelstein's Furniture in Brownsville, echoed that common concern of the businessmen.

"For years we've extended credit to Mexican citizens with no problems. * * * People are offering to pay their accounts if we take the peso," Gonzales said.

"Getting the peso changed is a major step," said Frank Wright, a local builder.

The second major concern expressed this morning was the possibility that businessmen may receive low-interest, economic disaster-type loans instead of the regular 14¾ percent loans currently being offered by the Small Business Administration office in Harlingen.

Powers said there was a possibility that legislation could be passed to make loans available at a lower rate, perhaps 8 percent, but cautioned the businessmen that there were risks involved in waiting for a better loan rate.

The SBA currently has $200 million worth of funds available at 14¾ percent for small businessmen along the U.S.-Mexico border.

However, the funds are available only through fiscal 1982, which ends Sept. 30. SBA offices have reported a rush of applicants and loans approved in the past two weeks.

Powers said that businessmen had "something to lose by waiting to see if there'll be a special program" and added that if he was a businessman in Brownsville he would apply for a loan now. He said President Reagan's budget currently has no funds allotted for SBA loans in fiscal 1983.

One merchant worried that a SBA loan was merely "putting a thumb in to plug the dike."

Otis Parchman, president of First National Bank, said merchants must face the fact that the Mexican government is specifically trying to stop Mexicans from buying U.S.-produced items.

He noted that many merchants sell items "that the government is setting out to curtail * * * conspicuous consumption that has been absorbing a lot of money out of Mexico."

Since February, the Mexican government has been trying with the devaluations and import bans to stop the flow of capital out of Mexico for foreign goods and investments.

In light of the Mexican government's specific policies against U.S. purchases, Parchman said that the border transactions "are going to get worse, not better."

Jim Buckingham, who owns a hardware store in Brownsville, told Powers that in August 1981 his store grossed $197,000. He said in August 1982 it had taken in only $107,000.

One man said that before the peso devaluations this year, he used to think he didn't depend on the peso trade. But others' hardships have affected his business, which he said has dropped 60 percent.

"I sure was wrong," said the man.

Powers said that Congress will probably adjourn in early October to campaign for the November elections. He said unless the two bodies were motivated to pass some emergency legislation for the border, it would be February "optimistically" before businessmen would feel the benefits of new legislation.

The comment was greeted with moans by the assembly.

"We're hanging in til Christmas. After that * * *" said one businessman, his voice trailing off disheartedly.

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DOWNTOWN BROWNSVILLE REVITALIZATION TO BE STUDIED

(By Greg Fieg)

Prompted by economic hardship resulting from the peso devaluation, city officials have applied for a $10,000 Federal grant to study a proposed million-dollar revitalization of downtown Brownsville.

If downtown merchants approve, the project may be modeled after successful historic building preservation shopping areas in San Antonio.

A key thrust of the proposal is the development of a new strategy to attract American shoppers and offset dependence on the waning Mexican market, undermined by the falling peso.

"It's not just a matter of making it look nice," said City Planner Larry Brown. "It's a matter of drawing people there to do their shopping, and making money."

Brown, who says several million dollars may be channeled into the project eventually, has applied for the grant from the Economic Development Administration, a division of the U.S. Commerce Department. Total cost of the study is $13,334.

The San Antonio revitalization project, like others in San Francisco, Boston, New Orleans, Philadelphia, Durham, N.C., Lowell, Mass. and elsewhere, operates as a traffic magnate, drawing shoppers because they want to shop in quaint, redecorated old shops, restored to original character.

The concept allows merchants to band together with a downtown shopping center plan, scuttling modern metal and plate glass store facades for something that newer, outlying shopping centers cannot offer: rustic, authentic old buildings with character and mood, many more than a century old.

Historical preservationists have criticized downtown merchants for destroying arched windows and doorways, ornate cornices, and brick and stucco facades and replacing them with plate glass, metal and plastic signs.

Preservationists argue this is a misdirected modernization effort, that money spent for trendy, flash-in-the-pan overhauls eventually reduces the value of the building, and cuts into profits.

Rather than enhancing what they have, merchants have tried to imitate flashy new shopping centers, said Robert Vezzetti, president of the Brownsville Historical Association.

"What they're doing is they're not taking full advantage of the historical buildings as a focal point, a drawing card so to speak," Vezzetti said.

"Those buildings are a natural resource because they are different and unique, and would be used in that text as a drawing card, just like the beach or the mountains or any other setting."

Some merchants are anticipated to resist the concept, however. They argue that restoration is too costly and are resentful their modernization has been criticized.

The proposal calls for the establishment of a low-interest loan pool to finance improvements.

Further, increased revenue from resulting escalations in property assessment would be channeled into special agency or city department, which would have authority to sell bonds payable with future property tax increases.

At the same time, increased trade would offset increased property taxes.

The concept hinges on merchant support, city officials say.

Unlike Matamoros, where the state government arbitrarily put a halt to destruction of old buildings last year, city officials must rely on merchant cooperation.

A uniformed store-front facade concept must be agreed upon by merchants, and the suggested San Antonio model could be disregarded, city officials said.

Jeweler Bobby Lackner, chairman of the merchants' Downtown Action Group, is attempting to persuade merchants to band together for a uniform concept.

One of the first undertakings of the project, if it is funded, will be the creation of a "data pool," containing information on available downtown floor space and other statistics.

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SBA Funds To Aid Businesses Suffering From Peso Problems

(By Jerry Urban)

Gov. Bill Clements announced Tuesday what he says is "extremely good news for business people along the border."

During a campaign jaunt through the valley, Clements said the Small Business Administration has agreed to provide $5 million to border businesses threatened by the devaluation of the peso.

"I've been in almost constant touch with business people from El Paso to Brownsville," Clements said before a campaign rally in Brownsville. "Everybody is losing on this side as well as the Mexican side."

The SBA fund will be available for the deferment of payments on existing SBA loans and for direct loans of up to $150,000 to border businesses which already have an SBA loan.

At a meeting with valley bankers and businessmen before the rally in Brownsville, Clements said, "I'm not so naive to think that this cures all the problems. I know better than that. But at least it's a beginning."

Clements said there are bilateral discussions currently under way in Washington and Mexico to find a long-term solution to Mexico's financial woes which ultimately affect the U.S.

The expansion of Mexico's petroleum industry and exports to this country will play a major role in getting Mexico back on its feet, he said. "I am convinced that in a year's time, they could step up their petroleum production, let's just use a number, let's say a million barrels a day* * * * They could market this on the market price basis in the United States."

"I think this would go an awfully long way to fill the economic base under Mexico's economy."

Clements said a lack of "communication" has slowed the expansion of the Mexican petroleum industry, however, today the "relation between Mexico and the United States is better than it has ever been in my lifetime."

The proved petroleum reserves in Mexico, Clements said, are three to four times greater than the total reserves in the United States.

Clements added that it makes good sense, in terms of national security, for the U.S. to import more petroleum from Mexico instead of depending on the Middle East product.

Referring to the high level of unemployment in the valley, one businessman at the meeting said, "If you can't sell anything, the SBA loans won't help."

Clements responded to other questions about unemployment by saying there needs to be more control of illegal crossing on the border, but Congress won't act.

In a prepared release, Clements also announced the SBA loans will not finance new businesses during the current crisis period unitl all existing SBA guaranteed and direct loans have been serviced.

The governor added that he is working with the Private Industry Council of the Texas Department of Community Affairs to explore the possibility of state assistance to border businesses negatively affected by the peso devaluation.

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### City Budget Picture Bleak After Peso Drop

(By Greg Fieg)

City officials are fearful of all but catastrophe after the second major peso devaluation in less than a month on Thursday, with layoffs, dramatic sales tax declines and possibly even some store closings anticipated.

City Manager Kenneth J. Lieck—already having faced an expected $1 million decline in projected sales tax revenue—may be forced to trim yet another $400,000 or more in sales taxes from his threadbare city budget, he said.

City employees may face layoffs, as do store clerks and other workers whose jobs depend on commerce to Mexico, he indicated.

However, a leading downtown merchant said the sales taxes can be replaced, not with sales to Mexicans, but to customers from Houston, Dallas, Chicago and regions throughout the nation.

Brownsville no longer needs to be dependent on a foreign economy, said Bobby Lackner, a downtown jeweler.

As chairman of the merchants' Downtown Action Group, Lackner said merchants must use the peso slump as a catalyst to develop a brand new approach to city commerce, with City Commission's help.

Brownsville's approach to business should be shifted to the American market, with special emphasis on attracting tourists and winter visitors, Lackner said.

This is an opportunity for us to sit down and work out a plan of attack to get Brownsville moving in the right direction," Lackner said. "We can turn Brownsville into a first-class tourist and convention center. We've got the beach, the zoo, that new museum soon, the resacas, the palm trees and a foreign country right next door. Nobody else has all this."

Lackner said the downtown group, already working with the city on rerouting city traffic to help increase trade, will ask the City Commission to appoint a committee to develop a commerce plan.

These proposals will be keystones for the committee's work:

A clean-up of the city.

Preservation of historical buildings underscoring frontier border ambiance.

Development of a tourist and convention center.

A river walk like that in San Antonio.

A revival of Market Square with curio shops and restaurants in period buildings, such as the urban shopping centers in old buildings in Pittsburgh, Philadelphia, San Francisco and other cities.

Lackner said what is most critical is that merchants gear themselves to the American market by advertising here and stocking goods the American tourist, not the Mexican, is seeking.

A similar business approach was adopted by Tipotex Chevrolet after the 1976 peso devaluation, as stock orders were shifted to American preferences, a company spokesman explained.

The switch minimized the impact of the peso devaluation on the company's trade, he said.

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PESO EXCHANGE RATE SLUMPS TO 130-TO-$1

(By David Hancock)

It took 130 pesos to buy $1 this morning in Mexico City when the government reopened its foreign exchange market after a week of suspended trading.

According to a spokesman at First National Bank at Brownsville, the peso was trading at 130 pesos to buy dollars and 120 pesos exchanged for a dollar.

Matamoros banks were selling pesos at 70 to 75 pesos to the dollar Wednesday, when dollars were still not being sold.

The Mexican government had to suspend the sale of dollars due to the great demand for the U.S. currency by Mexicans. The dollar controls were one of several recent measures taken by Mexican officials to discourage the great demand for U.S. dollars by Mexicans.

The February and August devaluations of the peso were both heralded by a great flow of dollars out of the federal treasury reserve. The central bank was left with no recourse but to let the peso devalue, which makes it more expensive to buy dollars and effectively cuts back the debilitating demand for the U.S. currency.

With the help of $2 billion worth of advance payments for oil and grain, Mexico was able to reopen its foreign exchange market today. But the question of how to stem the demand for dollars from worried Mexicans distrustful of their own currency remains.

"Nothing is going to stop it (demand for U.S. dollars) except the price. The market is the final judge of what it's worth," said Yves Maroni, the senior economist for the international finances division of the Federal Reserve Board in Washington, D.C. The Federal Reserve Board coordinates operations of the 12 Federal Reserve banks across the nation.

Maroni, who was contacted before the new rate was established today, said that if the peso were to trade at a high rate, such as 150 to $1, then it would be a transitory thing, more a matter of quick profitable speculation than a permanent currency rate.

Foreign investors in Mexico are faced with decisions concerning the recent 69.5 peso mandatory exchange rate on U.S. dollar accounts in Mexico that was imposed last week by the Mexican government, Maroni said.

"Some of them will say, 'I've got to have the cash,' and others will leave it there and hope for the best," he said.

Maroni said that investors would be reappraising Mexico in light of the recent dollar controls and latest devaluation of the peso.

"People are going to wait and see for awhile * * *. A year ago people did not see the problems developing. People tend to look at things with backwards glasses, not forward."

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PESO PLUNGE BLOW TO LOCAL ECONOMY

(By Greg Fieg)

Pedestrian traffic on downtown streets appeared relatively brisk this morning but was expected to decline soon as Mexican shoppers are greeted with signs reading: "No Aceptamos Pesos."

Overnight, for the second time since February, Mexican money lost 40 percent of its buying power in Texas, after a major devaluation this morning.

The devaluation followed Mexico's withdrawal from the international currency exchange market Thursday.

Declining commerce, just beginning to successfully recover from the devaluation six months ago, is expected to take another sudden dive, threatening jobs of store clerks and rocking Brownsville's city budget again.

The $27 million city budget is predicated largely on massive sales tax revenues, which since February had already declined from a projected $6.1 million to $5.1 million.

"We'll have to sit down and do some figuring," said Gloria Z. Hinojosa, assistant city finance director. "It's going to hurt the budget for sure."

It is not yet clear whether city property taxes will have to be increased to compensate for sales tax losses. Already a hiring and salary freeze has been put into effect.

At Bancomer in Mexico City, the peso opened this morning at 70 to the dollar, down from about 49 to the dollar Thursday, according to First National Bank of Brownsville.

Bancomer buys pesos from First National, which, like other Brownsville banks, accepted pesos at a blind rate this morning. The banks will pay out on pesos only after selling them in Mexico, rather than risk an inequitable exchange.

This morning's opening figure was anticipated to fluctuate throughout the day, and may close even lower, said Otis Parchman, First National's board chairman and chief executive officer.

However, Parchman said merchants are better prepared and more experienced since the year's first devaluation, and business likely will not suffer as much from conservative store owners who will wait before accepting pesos again.

"I think it's going to be a matter of hours," said Parchman, in anticipation of the new exchange rate. "Commerce is going to go on. People have been talking about the deterioration of the peso for some time. So it's not a surprise. It doesn't make it any more pleasant, but it's not a surprise and so it's less uncomfortable."

Business community leaders had criticized some merchants in February for waiting too long to accept pesos and further discouraging Mexican shoppers seeking cherished American goods such as televisions and other electronic equipment.

Solomon Sherman, owner of El Arca Inc., a Levee Street electronics store, said he will wait at least two days, maybe only three before accepting pesos.

The back-to-back devaluations, the first since 1976, are "killing" him, he said.

"Ninety-nine percent of this business is Mexican," said Sherman, who has a limited command of English. "Not 60 percent or 70 percent, 99 percent."

His business had dropped off 50 percent in March and had recovered by only about 20 percent this month. Now his future is uncertain again.

"For him the rest of the year has ended, businesswise," said a young woman clerk, after conferring with him in Spanish.

"All the employees I have," Sherman continued, "have been working for me five years, eight years, 10 years. Now I don't know."

Harry Holzman, owner of the former Walgreen's drug store, now Central Drugs on Elizabeth St., said most of his business is from Mexican customers also, but he is trying not to be discouraged.

"Sure, I'm worried," said Holzman, a former New Yorker and Israelite born in Cuba. "Business is going to drop, but my philosophy is life has to keep going on."

He was unsure how much his business will be affected but said sales declined 40 percent in March, and he had made up only half of that so far.

"It was starting to pick up. We saw a lot of people in the last two weeks, even though they weren't buying much. So either they had more confidence in their money, or they knew it was coming and were just trying to get rid of it, having a last splurge."

He expected business to remain fairly normal for the rest of today, but as for tomorrow: He raised his hand and turned his thumb down.

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PESO DEVALUATION CRIMPS CITY BUDGET

(By Greg Fieg)

The City Finance Department on Tuesday received state sales tax revenues for May, with an indication of a continued dismal forecast for the border economy.

Brownsville sales tax revenues had been climbing at a rate of about 30 percent until the Feb. 17 Mexican peso devaluation. That rate of increase has been wiped out by declining sales in city stores because of diminished buying power for Mexican shoppers, city officials said this morning.

Another sudden peso devaluation could wreck the city budget, City Finance Director Pete Gonzalez said this morning.

Sales tax revenue for May is at $196,540, only 2.25 percent more than for the same period last year.

Combined with recent quarterly sales tax reports, showing a 4.89 percent decline, the loss of revenue likely will reach $1 million by the end of the year, Gonzalez said.

Revenue projections set at the beginning of the year at $6.1 million, have already been cut back to $5.1 million, Gonzalez said. Further reductions are anticipated if there is an additional major peso devaluation.

Already, the local exchange rate has declined from about 26.89 pesos per $1 to 48.95 pesos per $1, First National Bank reported this morning. Broad segments of the financial community expect the pesos to continue declining, but slowly for now.

The city receives 1 percent of the 5 percent state tax on each dollar's worth of merchandise sold in the city.

The newly released figures for May include only businesses reporting monthly. Businesses paying quarterly have not yet been totaled, Gonzalez said.

"We were enjoying a 30 percent increase in the past, now we're down to break even or almost losses," Gonzalez said. "So things are not looking too promising. It may pick up next month, or it may go down."

With a close eye on the Mexican presidential elections July 4, City Manager Kenneth J. Lieck is considering austerity measures.

Already, he has imposed a merit raise freeze and a freeze on hiring for new positions.

Fuel, office supplies, capital equipment and other purchases funded when this year's budget was drafted last September may eventually have to be eliminated, Lieck said.

No decisions on further cutbacks have been made.

"We haven't had the opportunity to make an evaluation of this whole thing," Lieck said. "We're going to sit down in the next day or two and take a look at this."

He said it is possible the wage and hiring freeze may soon be lifted.

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### City Enforcing Freeze on Salaries and New Positions

(By Greg Fieg)

A salary and limited hiring freeze at City Hall will remain in force for at least another 10 days, and possibly through September because of declining city sales tax revenues.

The sales tax decline is blamed on the Feb. 17 peso devaluation and resulting loss of buying power for Mexican shoppers in Brownsville stores.

If the peso continues to hover at its current rate of between 46 and 47 per dollar, city sales tax revenues may fall off by as much as 10 percent through September, when the city's current budget expires, City Finance Director Pete Gonzalez said Tuesday.

"If there's another major drop in value, we could be in trouble," Gonzalez said. Nearly a third of the city's budget has been derived from sales tax revenue.

Gonzalez said the rate of increase in sales tax revenue has already declined 24 percent.

After an initial drop from 27 to about 46 to $1, the peso since the end of March has been losing four centavos a day, according to First National Bank. At that rate, the peso, already down 70 percent, would lose another 20 percent by the end of the year, putting it at about 55 to $1, the bank said.

Though the bank made no prediction, that rate of decline matches reported predictions from the Mexican treasury department.

Despite the decline, Brownsville's sales tax revenues continue to climb, rising from $4.7 million last year to $5.1 million by the end of this year, Gonzalez said. However, without the peso devaluation, sales tax revenues had been projected to increase to $6.2 million, he added.

"That's another million dollars we could have had, had it not been for the devaluation," Gonzales said.

From 1980 to 1981 city sales tax revenues increased from $3.6 million to $4.7 million, a growth rate which has been erased, Gonzalez said.

Pessimistic forecasts show the peso falling to 70 to $1 after the Mexican presidential election July 4 and installation of the new president in December, City Manager Kenneth J. Lieck said.

Lieck met with city finance officials Tuesday to try to determine how the city will finance its budget with unpredictable sales tax revenues.

As a precaution, he has imposed a freeze on merit and promotional raises for all city employees, which went into effect in mid-April. The freeze is also extended to hiring of employees for new positions, Lieck said.

Oscar Torrez, who stepped down Tuesday night as chairman of the Chamber of Commerce merchants' committee, indicated sales tax revenues will likely continue to decline.

"Business is not getting any better," said Torres, manager of King Mart. "As a matter of fact, it has leveled off to a level where it has not increased at all."

He said King Mart business had initially lost about 40 percent, but has since recovered to about a 33 percent decline. Various businesses have losses of different rates, depending on the type of merchandise sold, he said.

There are no official estimates, but most reports range from 10 to 40 percent.

City Finance Department figures show sales tax revenues declining 4.89 percent for January through March. Because sales tax reporting will not be complete until June 1, the length of duration for the city's wage freeze has not been determined.

A review is scheduled June 1, when it will be determined whether, to lift the freeze or continue it through September.

In the meantime, the city budget is being managed with a projected 10 percent sales tax revenue decline.

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MEXICAN BANKS WON'T FIX PESO RATE

(By David Hancock)

MATAMOROS.—Mexico's national bank will not set a peso exchange rate, its general manager said Tuesday.

Saying that a fixed peso rate would be "prejudicial to the interests of the majority," Manager Miguel Mancera announced in Mexico City Tuesday afternoon that the country "will maintain the unrestricted freedom of the exchange rate."

Brownsville and Matamoros bankers have said that much of Mexico has been in a state of flux since the February removal of government bank controls on the peso and subsequent devaluation. The peso has been losing four to five centavos a day for the past month, and bankers on both sides of the border say this slow erosion is likely to continue in the weeks to come.

"It's to everybody's advantage that the peso fall slowly, instead of abruptly," said Yolanda Cano, manager of the international department at International Bank.

Mrs. Cano said the peso had lost four centavos since Tuesday. Today's rate is 46.39 pesos to the American dollar.

A spokesman for Banco Nacional de Obras in Matamoros said its rate was 46.45, down five centavos from Tuesday.

Banco de Mexico is Mexico's equivalent to the U.S. Federal Reserve. Until the Feb. 17 devaluation, the bank had been maintaining the peso at an inflated exchange rate. When it removed its control, the peso dropped 11 pesos, 40 percent in its exchange to the American dollar. The exchange has since lost another seven pesos, in total, falling from 27 to 45 pesos to the dollar.

Mancera said Tuesday that countries that control their rate of exchange, "aside from being inefficient, promote corruption in government and in the business and population in general."

Control of the peso rate would not prevent other devaluations but, on the contrary, would cause them, he added.

He said it also would create massive unemployment, paralyzing economic activity that requires significant importation of basic materials and machinery.

Mancera added that control of the peso also would be a factor in concentration of taxes and riches and, like other places, would be the most powerful motor in the flight of capital out of the country.

Bankers have said that many Mexican nationals have been waiting for the government to make some announcement about the peso before they resume normal activity.

Causes for the continuing fall of the peso include the high rate of inflation, the devaluation, and the recent 30 percent wage increase ordered by the federal government, say bankers on both sides of the border.

## Sales Taxes Give City a Surplus

(By Greg Fieg)

There is good news and bad news at City Hall.

The good news is that the city is in its best financial position in five years.

The bad news is that the city has achieved that posture largely because of increased commerce with Mexican shoppers, and with the peso devaluation and the resulting decline in retail sales, the city may lose a major portion of its revenue growth potential by next year.

City Finance Director Pete Gonzalez told the City Commission Tuesday the city posted its biggest budget surplus ever in 1981: $1.2 million. Total revenues exceed expenditures by $1 million, he said in presenting his annual financial report.

But the city's first surplus of more than $1 million is largely attributed to increased sales tax, he explained. Gonzalez did not mention it, but the figures show the city to be dependent, at least for now, on a source of revenue currently undergoing an eclipse.

Since the peso devaluation Feb. 17, decreasing it from about 27 per dollar to about 47 per dollar, Mexican shoppers have had their buying power here cut in half.

Many merchants report a decline in business from 20 to 50 percent, and still await a market stabilization.

Sales tax revenues here totaled $4.7 million in 1981, an increase of 30.7 percent, or $1.1 million over 1980, Gonzalez said.

The city receives one penny of every 5 cents per dollar taxed on sales of all non-food items in the city, the remaining 4 cents going to the state. The sales tax was instituted in 1969.

"The increase was largely due to the continuing influx of Mexican shoppers from Mexico as a result of the much-improved Mexican economy, a steady growth of local population and the continuing visits of winter tourists," Gonzalez said.

If numbers of Mexican tourists continue to dwindle, the city may have to look to increases in self-generating revenue such as garbage collection fees and property taxes. which already were increased 3.3 percent per $100 of assessed value in September.

Still, a gloomy future cannot take away the results of the 1981 valley economy, which gave city financing one of its best years in a long time.

With garbage collection revenues up $472,937 to $1.8 million. the city is in its best financial position since 1977, Gonzalez said.

The report shows total revenues up $2.6 million to $13.5 million. Thirty-two percent of the revenues are comprised of sales taxes, 13 percent from garbage collection revenues.

Other major revenue increases are derived from a subsidy and free electricity provided the city from the Public Utilities Board, $1.4 million; franchise and other taxes, $368,499; fines, $263,246; and licenses and permits, $177,552.

Property taxes are up $740,000 to $3.3 million, and comprise 22.9 percent of total revenues, the second largest chunk after sales taxes.

The biggest share of city expenses $4.3 million or 32.2 percent is paid into the police and fire departments, Emergency Medical Service and other public safety programs.

Public Works claims $3.2 million, or 23.8 percent; Public Services, $1.5 million, or 11.2 percent; and electricity costs $1.4 million, or 10 percent.

In other business, City Commission:

Approved a management proposal to spend about $300,000 in revenue sharing on garbage pick-up equipment, but turned over $4,000 to the Esperanza Home for Boys, plus an $8,000 more from the general fund to offset the home's operating costs.

Authorized $90,000 in Federal funds to be spent largely for overtime for police officers assigned to a special stolen car investigation squad.

Told Access Brownsville for a Livable Environment, the handicapped citizens' advocacy group, that barrier free curb cutaways would be installed by Sept. 1, and that the City Commission will either move its chambers to the first floor of City Hall or to a building more accessible to the handicapped.

Approved a zoning change from apartment to dwelling-retail for Antonio Villarreal, for the establishment of a tortilla bakery at Lot 7, block 101, Original Townsite, with Commissioner Bernice Brown opposed after neighbors complained.

Approved on second and final reading the inclusion of Pat's Billiard Parlor, 1225 North Expressway (Garden Office Plaza) in a district where alcoholic beverages may be sold.

## Devaluation Could Cost Jobs Here

(By Greg Fieg)

Brownsville businesses continue today to try to sweep back the tide of lost sales attributed to the sinking peso, in some instances opting to cut back on their work force.

Though Texas Employment Commission jobless figures have not been compiled since the peso was devalued Feb. 17, indications are there will be at least a slight rumble in the local work force.

"We think probably that some of the retail outlets, particularly those that deal with a high percentage of clientele from Mexico, will either lay off or reduce hours, or in some other way compensate for the loss in customers," said Juan Guerra, manager of the TEC office in Brownsville.

"Let's just hope it's short-lived," he said.

The devaluation, plunging the peso over a two-week period from about 27 per U.S. dollar to about 47 pesos per dollar at most banks this morning, has apparently cut unevenly into retail sales along the border. Some stores report as much as a 50 percent slump, while others continue to run at least slightly ahead of last year's sales.

"It held good for us," said Derry Blish, manager at Beall's Department Store at Sunrise Mall. "Yesterday has been one of our slowest. We have been running 20 percent ahead of last year. We were (until the devaluation) running more like 40 percent, so it's hurt me."

He said Beall's has not yet had layoffs or reduced employee hours, but warned that the measure is under consideration. "It will just be a wait and see," said Blish. "It will depend on the next few days."

At Bells Store for Men, 1006 E. Elizabeth St., manager Tony Armendariz said he has cut down on one part-time clerk's work hours, from 26 hours a week to about 18. Another clerk has gone on vacation to take up slack during the slow period, Armendariz said.

"I think everybody else is doing the same thing that we're doing," said Armendariz. "They're cutting back their hours and moving up their vacation periods."

About 50 members of the Brownsville Chamber of Commerce met with local bankers for more than an hour Wednesday, and were urged to continue accepting pesos and to be sure not to take advantage of the Mexicans by exchanging pesos too cheaply. The Mexican shoppers should not be discouraged, said Oscar Torrez, manager of King Mart.

"In Matamoros they're doing pretty much the same thing. You take dollars over there and they'll give you 35 to 1," Torrez said.

Torrez said his business is off about 45 percent, but said business in other border cities such as McAllen and El Paso is worse.

Chamber President Bud Richards of Southwestern Bell said that by tightening expenditures and other adjustments, the merchants will pull through, as they did during the 1976 devaluation.

"It's not the end of the world," said Richards. "It may seem like it right now, but it's not."

Otis Parchman, president of First National Bank, did not disagree that pesos should continue to be accepted, but he had a warning.

"If you want a recommendation, don't hold your pesos too long," said Parchman.

"There's lots of speculation right now as to what the peso is going to do. We don't want to make any guesses because up to now, everything that's been said has been wrong."

Robert Duffy, chairman of the board of Texas Commerce Bank, indicated the troubles could not be over as quickly as the merchants hope. Because the Mexican inflation rate may run as high as 60 percent next year, while the U.S. rate is projected at 8 percent, it may be logical for more fluctuation, he said.

"I'm not saying there will be, but logic tells you that there might be some further adjustments," said Duffy.

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## Peso Plummets To 44.25 Per Dollar

(By David Hancock)

The peso fell to its lowest rate yet, going from 39.50 to 44.25 pesos to the dollar Thursday.

Local banks are collecting pesos today at 44.25 or 45 pesos to $1, but are waiting to see if the rate will drop by Monday.

"I had initially thought 38 was an overreaction," said Otis Parchman, president of First National, Brownsville's largest bank. "But now it's gone to 44."

An important question in the minds of local bankers is whether the Banco de Mexico will be pressured to step in and set the rate to keep it from devaluing further. Or, will the government allow the peso to find its own value, a process likely to take weeks or months and characterized by a drastic drop followed by slow improvement.

In 1976, when the peso was similarly devalued, the peso went from 12 to 30, before settling at 20 and gradually working up to 27.

"They (Banco de Mexico) are fighting on two battle fronts. To be realistic, they should let the peso find its own worth. But they have to give reassurance to the people, too," said Yolanda Walker, international manager at National Bank of Commerce.

"It's difficult to separate the psychological from the economic pressures in the case," said Parchman, adding that there were political considerations, too.

Parchman and Mrs. Walker both stressed that it was too soon to make comments about the future of the peso, that it would be weeks before anything would be definite.

The newest devaluation occurred after the first day of increased price controls mandated by the Mexican government.

Mexican Commerce Department investigators were closing businesses Thursday in Mexico City for price freeze violations. According to wire reports, the closures ranged from small shops to supermarkets.

Thursday the government added 50 new items to the list of frozen goods, most of them household staples. These items joined the many other fixed prices for nationalized industries, including oil, telephone, electricity, and the Conasupo, a food and household goods conglomeration.

Mexico cut the price of export crude oil by $2 a barrel late yesterday. This will mean a loss of $2.2 million in daily revenue. But it is hoped to help oil exports, which have been dragging lately in the wake of a worldwide oil glut.

Many of Mexico's economic woes come from uncontrolled growth, said Tom Flory at Texas Commerce Bank. He described Mexico as little as 50 years ago as "wide open," an undeveloped land used primarily by other countries for its raw resources.

Much of the problems in Mexican industry have come about from short-term, high-interest loans to businesses that must regularly be refinanced. Interest rates for loans are as high as 44 percent, higher if other costs are included, Flory said.

As of this year, Mexican private debts total $15 billion. More than half these debts by individuals and companies are to American banks, and these debtors were hardest hit by the devaluation. The amount of pesos needed to buy dollars to pay back the debts has risen 66 percent in a week.

Mexican public debts total $48.7 billion. According to the New York Times, the two figures together give Mexico the second largest national debt in the world for developing countries, behind Brazil.

A Monterrey economist, Arnulfo Rodriquez, agreed that the Mexican economy suffered from too rapid growth with foreign funds.

He said that this year Mexican industries must stop their expansions on borrowed money, and try to maintain what they have.

Rodriquez, who was a financial advisor to the Alfa conglomeration in Monterrey, now lives in Matamoros and is planning to open an ice-making factory.

Rodriquez said he thought the government must take steps to reduce the economy. This would help Mexico's 30 percent inflation rate, which is expected to rise in this year of economic turmoil.

He recommended higher control of prices, increase of minimum wage for low-income people, and government support of Mexican businesses.

"We have to have a very awful year to settle down the economy," Rodriquez said.

"Mexico is a complex country and major world power by anyone's standards," said Parchman. He said there were many reasons contributing to Mexico's economic problems, and that many of them are the same, or go hand in hand with U.S. economic problems, such as inflation, and recession.

Walter Rathjen, president of independent Bank in Brownsville, said one of Mexico's severest problems is their low production rate, and their dependence on foreign goods.

More than 75 percent of Mexico's exports are oil products. The oil boom of past years has helped the economy, but has currently been dropping off with the worldwide oil glut. The Mexican government nationalized Pemex, the major oil company, in 1938.

Rathjen said that of Mexico's population, only 16 to 17 percent are working at producing a visible export. The rest of the working force is in service fields, or unemployed.

The prohibitive rate of the peso to the dollar, along with government regulations, has brought foreign imports into Mexico to almost a complete stop. The government hopes this measure will increase Mexican consumption of their own products and increase national production.

Although price controls are expected to help the poor hurt by inflation, they tend to further distort the market, Flory said. He said that price controls lead to shortages, hoarding, black markets and graft. Flory noted that the Mexican government lends an ear to lobbyists from private industries who want their prices set or raised. Rathjen also agreed that corruption in all parts of government was an undeniable part of economic problems in Mexico.

The devaluation has brought distinct advantages and disadvantages to Brownsville and Matamoros. Brownsville merchants have been hurt by the loss of Mexican customers who won't change their pesos for dollars now.

But Brownsville residents and tourists profit from the advantageous exchange rate when shopping in Matamoros, and this expected increase of tourism is good for both cities.

Alejandro Duron Guerra, president of the Matamoros chamber of commerce, said the exchange rate will free Matamoros industry from debilitating competition with U.S. products. He said he hopes to see an increase in Matamoros' production ability, and said his office has been contacted by several U.S. companies interested in starting businesses in Matamoros.

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### Devaluation May Cut Port Revenues

(By Charles Lunan)

The accuracy of the 1982-83 operating budget approved Wednesday by commissioners at the Port of Brownsville will vary with the performance of the regional economy over the next 12 months, Port Director Al Cisneros said.

Cisneros said the Brownsville Navigation District's budget is based on assumptions of how much revenues will be derived from port fees levied against businesses there. If business slows, revenues will decrease from over the same period last year, but if the economy picks up so will revenues.

Wharfage operations, elevator and bulk plant operations as well as revenues earned from the port's utility system and leases supply the vast majority of revenues for operations here while income from taxes supplies only about 6 percent, Cisneros said.

Revenues collected at the port provide a kind of barometer of overall business activity in the Rio Grande Valley and neighboring Mexico, and as business slows in those places the port feels the impact via reduced revenues. Sudden developments in national, international and local economies—such as the withdrawal of Mexico from the foreign exchange market and subsequent 41 percent devaluation of the peso Thursday—can have a large impact on the level of port revenues and affect the accuracy of figures set in the budget.

Cisneros said that about 50 percent of the port's business comes from Mexico and because the devaluation will raise shipping costs for Mexican concerns using the port, he expects a decrease in revenues.

He described 1982 as "a year of transition" in which revenues will barely exceed the level for the 1981-82 fiscal year, key port personnel will retire, and the BND will expand into an office annex planned for construction this year. Ersel Lantz, director of planning and development at the port, has announced his intention to retire as has Jimmy Gin, personnel services director for the BND.

The budget calls for total operating revenues of $7,830,038 with an additional $1,980,060 in revenues from taxes and interest. Operating expenses are forecast to be $3,941,471 while administrative and depreciation costs are predicted to total $941,205 and $967,302. Minus interest and other expenses, the budget calls for a net income or cash flow of $2,082,042 or a total budget of about $9 million.

In preparation for the fiscal year beginning March 1, the board wrote off $39,177 in losses, most of which came from a settlement between the BND and a grain company which had disputed some charges assessed against it.

During the commission meeting, Cisneros also detailed the progress of various capital improvement projects currently under way at the port. About $4 million will be spent in the next eight months on 10 principal projects including the extension of

a road and utilities along the southern side of the ship channel, improvements to the BND's bulk cargo facilities, the construction of a remote control facility to be used to control operations at the public grain elevator and construction of an office annex for expanded BND offices.

Cisneros told commissioners the projects can be financed out of port revenues until the end of the year but a bond election may be necessary after that.

The Brownsville Herald incorrectly reported Tuesday that the BND was going to build an office complex to house U.S. Customs and Coast Guard facilities. Cisneros said Thursday that the district will proceed with plans to build an office annex contingent with current offices near Texas 48 and FM 511. The annex will be used only to expand BND accounting and other offices and will be roughly the same size and design as the current office.

In other business, the commissioners:

Referred approval of bids for a fumigant to be used at the public grain elevator to George Nicol, grain elevator manager.

Passed an inducement resolution approving action taken by the Port Brownsville Industrial Development Authority which will allow the Brownsville Tile Co. to begin construction of a tile manufacturing plant with the assurance that it may recover some of its expenses through the issuance of industrial development bonds.

Approved renewal of a contract with the city of Brownsville for a fire services contract which will go before city commissioners Tuesday for final approval. (Cisneros said the city has provided excellent fire protection services for the port for 20 years.)

Commissioners also heard a progress report from Cisneros on the transition of the rail switching system within the port from Missouri Pacific Railroad to the BND. Mopac announced its intention to stop providing switching service for the port last fall. Cisneros said the district is preparing to take over the operation of the system and establish a port terminal railroad.

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## Devaluation Impact May Not Match 1976

(By Greg Fieg)

The border economy continues in disarray in the first 48 hours after the devaluation of the peso Wednesday, with area merchants looking to the weekend for the first big test of how severe the sales slump will be.

Already, however, there are strong indications the impact may not be as severe as the 1976 devaluation, when Mexican commerce with U.S. business was brought to a screeching halt.

This time wary Mexican shoppers—alerted for months by persistent rumors that a devaluation was coming—apparently may have converted their savings into dollars to protect themselves.

Brownsville businesses report only a moderate slowdown so far from the booming sales pace of preceding weeks.

Despite reports of thinning parking lots and idle sales clerks, businesses continued to run ahead of last year's sales Thursday, in at least one instance, by as much as 70 percent.

"I was surprised," said Derry Blish, manager at Beall's Department Store in Sunrise Mall. "We did an increase over last year yesterday. I figured we'd take a tremendous loss, but I think the people in Mexico were more prepared. I hope yesterday is an indication that this year won't be as bad as '76."

Already Beall's has lowered its rate of exchange from 50 pesos per dollar Thursday to 38.4 pesos per dollar today. Most stores either refused to accept the peso, or jumped their rates from about 27 pesos per $1 to the high 30s and low 40s.

Some American banks were still refusing to buy pesos. Whitman's Diamond Discount Center on East 11th Street is attempting to hold the line against the devaluation maintaining a rate of 30 per $1, and absorbing some losses in markups, said store owner Bernie Whitman.

"We'll write it off," said Whitman. "We don't want to scare people away. We're making the peso welcome, the Mexican welcome and not scaring anybody off."

Whitman did not know if other stores would follow his lead, and said he made his decision independently. "I lead the pack, I don't follow them," Whitman said.

Tony Leon, assistant manager at J.C. Penney's at Amigoland Mall, had maintained the standard 27 to 1 exchange rate through Thursday, but said that was countermanded this morning from corporate offices in New York. "We were notified that we will be at 40 until further notice," Leon said.

Economists are still unsure as to when the peso may stabilize. As of noon today, Actibanco Guadalajara was exchanging at 38.50 pesos to the dollar, and Walter Rathjen, president of International Bank in Brownsville.

International Bank was exchanging pesos at a blind rate to customers, who were forced to accept the peso's close at the end of the day.

"My understanding," said Roy Phillips, manager at Dillards at Amigoland, "is there is no official rate. Really it's too early to tell. I think we'll get a better fix on it by the weekend. Today we're 37 to 1. We're setting it on a day-to-day basis."

Ironically, the devaluation comes just as merchants were gearing up for Charro Days, when special promotions are run to bolster sales in the otherwise slow months of January and Febraury.

"Special sales are planned around this and our merchants gear up their trade for the week," explained Posey Parker, marketing director for Amigoland. "When we first heard about this the first questions was: 'Oh no, how does this effect Charro Days?"

Though Charro Days—which traditionally draws thousands from Mexico—is not nearly as significant a sales period as Holy Week and other big-spending periods, a retreat from last year's sales figures should provide a further clue as to when the Mexican will return in force.

For those of them who failed to prepare themselves by buying dollars—many of them poor or middle class—it will take time for an adjustment to the realization that their savings have been cut nearly in half, and their buying power, payments on layaways and charge accounts in U.S. stores have nearly doubled overnight.

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BROWNSVILLE'S STORES OFFERING VARIED RATES

(By Ronnie Zamora)

Brownsville merchants who call their banks before they open their doors every business day got a big surprise this morning.

Usually, they discover that the change is minimal when they ask what the exchange rate is from pesos to dollars. This morning, they were told the change was a drastic one.

The devaluation of the peso left merchants in the downtown Brownsville and Amigoland Mall area, who deal heavily in pesos, trying to decide exactly how to handle the situation before opening their doors. Some refused to accept pesos altogether. Others raised their exchange rate as high as 40 pesos to $1, while one store kept its exchange rate at the usual 27 pesos to $1 at Wednesday's closing.

Merchants started to see their businesses start to suffer this morning after consumers discovered their pesos were worth 40 percent less than what they were worth Wednesday.

Banco Internacional of Matamoros announced shortly before noon that it was exchanging pesos at a rate of 38.25 pesos to $1.

All merchants surveyed agreed upon one thing—the policy for exchanging pesos could change at any given moment, depending on how banks on both sides of the border would be exchanging pesos for American dollars.

Dillard's at Amigoland Mall was the only store surveyed that has stopped taking pesos altogether because of the unstable situation.

"As soon as the rate stabilizes, we'll set some kind of policy and start accepting them again," said Dillard's manager Roy Phillips. "We'll kind of let the dust clear and see what happens before we take any action."

One national chain store surveyed was still giving that rate—the J.C. Penney's stores along the border.

"We'll still taking pesos at the same exchange but we're not taking checks on any Mexican bank, regardless of the amount," said Larry Deppenschmidt, operations manager of the J.C. Penney's store at Amigoland Mall.

"I think once the word gets around that we're still accepting pesos at the old rate, we'll be taking business away from other places," Deppenschmidt added. "The only difference now is that we're giving change back in pesos instead of American money."

Montgomery Ward's, the other major department store at Amigoland Mall, was accepting pesos at 38.50 to $1.

"We still want to accept the peso but it's going to stun the people," said Montgomery Ward's manager Hal Helmstetler. "It's going to hurt our business for a period. Just how long, though, I don't know."

King Mart, directly across from Gateway Bridge and which does about 90 percent of its business from customers in Matamoros, is expecting a big drop in business.

"It's definitely going to hurt, but I don't think it'll hurt as bad as in 1976 when the peso devalued before," said store manager Oscar Torrez. "We were giving pesos at 33 to 1 when we opened but we're changing it to 38.25 at noon."

Another downtown store, Terry Farris, opened its doors today exchanging at "40 to 1 and holding out," said store manager Fidel Rodriguez. "This thing (devaluation) was coming and we knew it was coming, but we didn't know exactly when," said Rodriguez, who estimates that 70 percent of his business comes from Mexico.

All merchants in the downtown area surveyed indicated that they could not discontinue accepting pesos altogether or they would go out of business.

"We have to accept something so it really doesn't matter to the customers what the price is on an item," said Rene Ramirez, manager at Anthony's downtown who is accepting pesos at a rate of 35 pesos to $1. "Sure, it's going to hurt our business. We've had a few customers this morning that didn't want to buy at 35 to 1. But I think it won't hurt us as much as other people because we're open on Sundays and we get a lot of people from this side."

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PESO PLUNGES TO 38-1

(By David Hancock)

Brownsville banks stopped exchanging pesos today in response to a Mexican suspension of international buying and selling of the peso which occurred late Wednesday.

Spokesmen for various banks said they would take pesos on a collection basis only, and payment will be made when an exchange rate is adopted by Mexican banks.

First reports indicate the exchange rate at 38.25 to 38.60 pesos to the dollar, which is a 41 percent devaluation from yesterday's rate of 27 pesos to $1.

This drop is the first drastic devaluation since August in 1976, when the central Mexican bank removed its ostensible control of the peso and allowed it to "float," to fluctuate with national and international economic trends. At that time the peso devalued 45 percent.

El Banco de Mexico, the government's central bank equivalent to the U.S. Federal Reserve, announced unexpectedly late Wednesday that it was suspending trading in currencies and dropping its behind-the-scene support of the peso.

During the past year, the central bank has devalued the peso by about 15 percent in tiny steps of less than a tenth of a cent per month.

The Banco de Mexico said the action was necessary because of shrinking world demand for such Mexican exports as oil, silver, coffee, cotton and sugar, and the general effects of high interest rates and a deepening world recession.

The major reason for the suspension of peso trading was to stop the flow of capital out of the state, according to local bank officials. The move is hoped to encourage Mexicans to spend their money in Mexico, rather than exchange at a now much higher rate.

Walter Rathjen, president of International Bank in Brownsville said other reasons for the suspension and devaluation of the peso include an ailing tourist industry in Mexico, as well a worldwide oil glut which has reduced business for Pemex, the major Mexican oil company.

For the past year, economic observers have been saying the peso was dangerously overvalued.

Spokesmen for local banks said they would start buying and selling pesos again, as soon as an exchange rate stabilized.

Local merchants have been permitting small purchases at exchange rates varying from 38 to 40 pesos to the dollar, according to Steve Bosio at the Brownsville Chamber of Commerce.

Bosio noted that the devaluation of the peso will have some positive effects here in Brownsville and Matamoros.

He said the higher exchange rate would make the border area "more attractive" in terms of tourism and industry.

With the cost of operating in Matamoros significantly lower, industries will consider it more economically feasible to work out of the area, Bosio said. He said tourists will naturally come to an area that gives them a better exchange on their American dollars.

Comparing this devaluation to the one in 1976, Bosio said that businessmen weren't as unprepared as before. Before 1976, the Mexican government had set a fixed exchange rate for the peso that hadn't changed in 22 years.

Rathjen, at International Bank, said the hardest hit by the devaluation will be those people who have debts in dollars, because that debt will increase 40 percent. Those who keep peso deposits in the bank will also suffer the same loss.

Mexicans who deal entirely in pesos will be better off, because national conditions will adjust accordingly, the banker said.

Rathjen said the reason the peso hadn't adjusted to Mexico's reported 30 percent inflation is that it isn't an entirely free floating currency. He said that countries like Denmark and Switzerland have "clean floating" currency, in that there are no regulations put on the money, other supply and demand of the business world.

Mexican currency, which has been ostensibly free floating, has still been controlled by the Banco de Mexico in less public ways.

Rathjen said that as "distasteful" as devaluation is, it is much preferable to have an exchange rate, no matter how high, than the current suspension of buying and selling of pesos.

Bank spokesmen said the banks may begin dealing in pesos again as early as tomorrow, but most probably on Monday.

MCALLEN CHAMBER OF COMMERCE,
*McAllen, Tex., September 28, 1982.*

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Hon. KIKA DE LA GARZA,
*Congressman, the State of Texas.*

DEAR CONGRESSMAN DE LA GARZA: Thank you for the opportunity to present our views on the current situation and outlook for the Texas-Mexico border. We would appreciate any help you can provide in transmitting these findings and recommendations to the appropriate parties. We respectfully request that this letter be entered as testimony to the September 29 hearings of the House Small Business Committee as the official position of the McAllen Chamber of Commerce.

*Mexican situation.*—Mexico's current liquidity crisis is temporary. A solution depends on the world inventory and price of crude oil, confidence in the Mexican government, and U.S. economic recovery.

The inauguration of Migul de la Madrid Hurtado on December 1, 1982 will restore public confidence in the government and improve its ability to deal with its financial problems.

Mexican institutions are strong enough to withstand the current crisis. However, some permanent institutional changes in the economic system have already been made. That these changes were made peacefully and more or less democratically is a cause for optimism, even though we disagree with the underlying philosophy.

The Mexican government established rate of exchange for the peso of 70 to 1 is an economically rational exchange rate. The market should eventually return the exchange rate to this level, set by the government for peso withdrawals from dollar accounts. The critical question is, "how soon?"

If a general exchange of 70 to $1 were to prevail during the coming four months, and if merchants could generally anticipate being able to exchange their pesos for dollars at this rate, the economy of the border region could recover to normal levels by the late 1983.

*Border situation.*—The successive peso devaluations of 1982, and most importantly the stringent foreign exchange controls and freeze on dollar accounts imposed by Mexico during August and September make the situation on the border much more serious than it was in 1976.

The period of August through December will be the time of greatest vulnerability for the Border economy.

Mexican trade in normal times has accounted for 35 percent of retail and wholesale sales in El Paso and McAllen, 45 percent in Brownsville and Del Rio, 50 percent in Laredo, and 65 to 70 percent in Eagle Pass. These normal levels were boosted by around 10 percentage points throughout 1981 and early 1982. After the February peso devaluation, trades had returned to normal levels within four months. After the recent turmoil, Mexican shoppers and tourists have virtually disappeared from the border. This week, city-wide retail sales in McAllen are off 45 percent from the same week a year ago. The situation in Brownsville, Laredo, Eagle Pass, and Del Rio is even more dismal.

According to the most recent report of the Texas State Comptroller, there are 17,245 retail and wholesale outlets in Texas' four border SMSA's alone. They employ 92,500 persons, according to the Texas Employment Commission. If the current absence of a foreign exchange mechanism holds through the Christmas season,

at least 10 percent of these employees must be considered candidates for indefinite layoffs. This would mean a loss of a least 10,000 jobs in these four counties alone, equivalent to two Braniff shutdowns, We feel even this bleak projection may be overly optimistic.

Because trade is the largest economic and employment sector along the border, such a loss of jobs would have a drastic impact on other areas of the economy.

Illegal immigration from Mexico will increase substantially.

Additional pressure will be placed on the unemployment insurance funds of the border states.

If border economies are allowed to collapse, one of the brightest development regions in the nation will be set back significantly for some years.

*Recommendations.*—We strongly support and endorse HR 7022, which would amend the Small Business Act to provide assistance to areas of economic dislocation caused by currency fluctuations in a neighboring country. SBA "economic injury" loans were removed from the act in the Gramm-Latta Act of 1981. Many of our small businessmen can survive with timely assistance to help them weather this storm.

We have recommended to Texas Governor Bill Clements that he request that President Reagan declare the United States border region an economic emergency zone. The scope of the economic dislocation we face on the border is so large as to adversely affect the national economic recovery. The persons who will be most seriously affected by the devaluation are by and large Hispanic owners and employees of small businesses who have been at the forefront of the border's economic development and job creation. A presidential declaration of emergency will cut bureaucratic red tape and assist these businessmen in time for many to avert bankruptcy.

Specifically we recommend that you work toward the establishment of a federally authorized program to funnel pesos back to Mexico in the form of credits against U.S. purchases of oil and other Mexican goods. The absence of a clearing market for pesos has been the single most damaging factor to both sides of the border. This is because both U.S. and Mexican border commerce depend on the smooth exchange of our respective currencies, and the Mexican exchange controls have brought much of this commerce to a wrenching stop.

Thank your for your continued support in this emergency.

Very truly yours, the Board of Directors, McAllen Chamber of Commerce.

CHARLES WILSON, *President.*

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SEPTEMBER 30, 1982.

Hon. PARREN J. MITCHELL,
*House of Representatives,*
*Washington, D.C.*

DEAR MR. MITCHELL: Due to the severe nature of the present economic distress in this area, we the undersigned hereby plead that your committee take immediate action to pass H.R. 7022.

We represent retail business locations that have suffered loss of 80 percent to 95 percent of our daily sales as compared to the period before February 1982. Layoffs to this date have victimized 60 percent of our personnel of the same period. The critical financial losses suffered together with the projected losses indicate that many of our businesses will soon have to close without the aid called for in the above stated bill.

The prospect of an economic disaster of immense proportions threatens the entire border area should the current status not change. During the previous peso crisis of 1976 business made a quick recovery due in great part to the financial aid furnished by the Small Business Administration. We are prepared to provide you and your committee with all the information you may need to act on this bill.

Sincerely,

Arnold T. Zarate; Joe Guerrero; Roy Trigo; Mrs. Katy Castro; Miss Ann Furman; Mr. Albert Suarez; Mr. Frank Benavidel; Mr. Vic Pinnella; Mrs. Helen Garrett; Mr. Clemente Caballo; Elena Guerra; Mr. Chip Garret.

GREENWAY RV CENTER, INC.,
*Pharr, Tex. September 24, 1982.*

Congressman KIKA DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR SIR: Having been in business in Pharr, Texas, for fifteen years, and only 9 miles from the Mexico Border, I find myself in a dilemma.

Our sales became Mexico oriented over the past years as our retail and wholesale business grew, and sales were very good. Our business stocks materials for fabrication in Mexico as well as selling finished products to Mexican consumers. As you know, the peso devaluation hit us right between the eyes, but the lack of ability to exchange pesos for dollars has really put us down. The freeze on the exchange practically stopped our business overnight.

We have adjusted back to selling to our local and tourist trade only, but with all businesses hit hard at this time, there is very little local buying. Cash flow is nil at this time, and the business atmosphere very fragile here in Pharr and McAllen. I have approximately 6 Hispanic and 2 Anglo employees. I have had to lay off 1 employee, and cut back all hours on the others drastically. I hire mostly disadvantaged people, and they are becoming productive citizens with their own homes and families. I have personally guaranteed some loans at our banks for them. If I go under they may go also.

I am writing to you in order that you might understand our need for a low interest disaster loan with deferred payments in order to help us pull thru this crisis. I am sure that many businesses will be bankrupt and long gone before this is over.

I have never had to rely on a SBA loan before, but now I can see no other way out of our predicament. Anything you can do to help us along these lines will be appreciated.

Sincerely yours,

JOE E. SCOTT.

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RICHARD'S ELECTRONICS,
*McAllen, Tex., August 31, 1982.*

Hon. E. (KIKA) DE LA GARZA,
*U.S. Representative*
*Washington, D.C.*

DEAR KIKA: I am writing to you on behalf of several businessmen from McAllen to ask you for your help and assistance to alleviate our problems that we are facing due to the devaluation of the peso.

The devaluation has affected our businesses tremendously and our sales have dropped from 40 percent to as high as 95 percent. You must realize that under these circumstances, we cannot possibly last too much longer.

Most of us have already laid off several employees. I for one have to let go two employees. This of course is hurting the economy not only of McAllen proper but the economy of the whole valley.

Kika, we had a meeting this morning at the Sacred Heart Community Center. The representative of SBA from Harlingen was present and talked to us about what we already knew, but he did not offer any solutions. He told us that there were some funds available at 14.75 percent interest. Of course at this high rate of interest, the remedy will be worse than the illness because it will get us deeper in debt instead of helping us to get out of it.

If the U.S. Government wants to help us, we feel that we need to secure loans at lower interest rates and we should get help "muy pronto" otherwise most businesses that depend heavily on the Mexico trade will have to fold up.

During Beulah, I remembered that you helped the whole valley to arrange for loans at a very low interest rate. I realize that this emergency is not as bad as the disaster during Beulah, but for the same token we wouldn't need the same amount of funds.

Please try your best to help us.

Thank you for your consideration and cooperation in this matter.

Sincerely,

RICHARD MARTINEZ.

JO-LYN CASUALS,
*Brownsville, Tex., September 10, 1982.*

DEAR SIR: I am writing to appraise you of the economic situation here in the lower Rio Grande Valley. I am the owner of a small business, a ladies apparel store, and have been severely hurt by the current economic situation caused by the devaluation of the peso and our own economic woes.

I have spoken with the Small Business Administration in regard to a loan to see me through these hard times but they inform me that the current interest rate is 14½ percent which is basically what the bank is offering. I cannot see the rationale behind such an offer. If it is to be of any help it would have to have a lower interest rate and a longer repayment period. An offer such as the current one is absolutely of no value to any of the businesses in our community. This is one of the major reasons why so many of the businesses in our area did not apply for loans during the last devaluation. We were informed by the banks and people dealing with SBA that there were not enough applications to warrant declaring this area a disaster. If only you could come and walk our sidewalks and take a look. The streets are deserted, it looks like a Sunday afternoon every day.

Ever since the peso devaluation in February my business was affected to the extent that sales were off by about 50 percent. Five months after the devaluation things were beginning to normalize to the extent that recovery was about 80 percent of the original sales. Now that the peso has been devalued again sales have been drastically affected. Such is the case that there are days when my sales amount to about $25.00 daily in comparison to $800 to $1,000 a day before. I am not even able to meet my expenses and if such continues to be the case I will be forced to lay off my other two employees.

I strongly urge you to let your colleagues know of what plight we are in and to try and help our area by bringing down interest rates and making available extra monies so that we may survive.

Respectfully,

LINDA DE LACHICA.

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HOUSE OF REPRESENTATIVES,
*Washington, D.C., October, 7, 1982.*

Hon. PARREN J. MITCHELL,
*Chairman, Committee on Small Business,*
*Washington, D.C.*

DEAR CHAIRMAN MITCHELL: At the September 29 hearing on H.R. 7022 held by the Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, you stated you and other members of the subcommittee would meet with members of the Banking, Finance and Urban Affairs Committee to see what could be done to facilitate the establishment of an exchange system for the conversion of pesos into dollars.

Please know that I greatly appreciate your efforts to alleviate the adverse impact of the Mexican financial crisis on businesses along the border. To assist you, I would like to share with you the enclosed comments I have received recently from constituents in my District discussing the urgent need for a peso exchange system. I would appreciate your adding the letters to the hearing record.

With my thanks and highest regards, I am

Sincerely,

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E (KIKA) DE LA GARZA,
*Member of Congress.*

Enclosures. Letters from Capi Vasques; Vicente Villarreal; Joe Kownslar; Sara Skaggs; David Jones and Hector Contreras.

PERL BROS.,
*Brownsville, Tex., September 21, 1982.*

KIKA DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

Hon. DE LA GARZA: First of all Sir, may I say that I hope this letter finds you in good health.

I am writing in regard to the peso situation and the effect it is having on businesses in Brownsville.

In spite of the financial help that our government is providing I am afraid that unless some other courses of action are taken, most businesses will not survive.

Now, with the controls placed on the peso by the Mexican government, the situation is critical.

For this reason, may I suggest that an 18 mile free zone be initiated along the U.S. and Mexican borders. Also I believe it would be a big help to our businesses if the U.S. Government would buy pesos from us and pay for Mexican petroleum with them.

Anything that you may be able to do for us will be tremendously appreciated.

Keep up the good work and please accept my best wishes for you and your family.

Respectfully yours,

CAPI VASQUES.

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VILLARREAL'S PRODUCE,
*Mission, Tex., October 5, 1982.*

DEAR MR. DE LA GARZA: The following is a run down of all monies owed to Villarreal's Produce Co. Inc. Villarreal's Produce has not been able to collect one cent since February 1982.

(1) Bad checks returned to us due to the Mexican Government's freezing of all dollars accts. $238,671.59;

(2) Bank letter from Banco Somex guaranteeing us $100,000.00;

(3) Accounts receivable as of October 4, 1982, $240,528.11.

The grand total is $579,199.70. What we need is for the Mexican government to allow the exchange of pesos for dollars so that our customers can obtain dollars to pay us. Again we stress that we haven't been able to collect any money since February 1982. We would like to see some fast action taken on this because we don't know how long we can hold out.

Another point you might be interested in is that our income tax was due September 15, 1982 for $54,961.36 of which we only send $4,961.36 again for the same reason: lack of money.

All of our customers are good people and have been loyal to us for over 17 years. The only reason why they don't pay is because they cannot obtain dollars because their government has all the dollars in banks frozen and because they cannot exchange their pesos for dollars.

Thank you,

VICENTE VILLARREAL.

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VILLARREAL'S PRODUCE,
*Mission, Tex.*

Mr. KIKA DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR MR. DE LA GARZA: I was very glad to hear from you and to see that you are really working to get this mess cleared up. I am writing to you because of the following: I was landed another blow Saturday when I called a merchant from Monterrey, Mexico from whom I buy my canned jalapenos and we were discussing the price and so on, but when it got time to ask him about the method of payment he told me that I had to pay him in dollars and his company will in turn sell them to the Mexican government at a rate of 70 to 1. So you see Kika I'm lost at both ends. First of all my customers cannot pay me because they have no dollars and second I can't buy anything from Mexico because they demand dollars instead of pesos. So, even if one of my customers were to pay me in pesos I still couldn't use those pesos to buy merchandise from Mexico and I would be stuck with the pesos.

I would appreciate it if you could let Congress know about this situation so that they can be aware of the position that a lot of us are in and again I would like to thank you for all your help.

Sincerely,

VICENTE VILLARREAL.

BORDER EQUIPMENT EXCHANGE,
*Mercedes, Tex., September 29, 1982.*

E (KIKA) DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR KIKA: Thank you very much for your swift reply to my phone call and letter. I have shared your letter with several other businessmen and we all want you to know that we feel more secure and confident after reading the enclosed information. It is good to know that we have someone like you with a first hand knowledge of our (both the U.S. and Mexican) situation here on the "frontera."

My colleagues and I could use financial assistance, but we feel as you do about a clearing house, and better systems of monitary exchange between the two countries. Something along these lines would be for the long term, our future, that is what we are most interested in. Surely you will find the business community of Mexico ready to do their part. We must unite our efforts with that group to cause the few decision makers in Mexico City to realize they cannot impose such damaging hardships on the growth and economy of both countries, and get away with it. They must reconsider. Your continued efforts are wholely supported by all of us. Please keep us informed of new developments, and most importantly of how we can help you.

Sincerely yours,

DAVID JONES.

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GRUPO FINANCIERO/INTERNACIONAL,
*McAllen, Tex., September 24, 1982.*

Re Peso acceptance or conversion.

Congressman KIKA DE LA GARZA,
*House Office Building,*
*Washington, D.C.*

DEAR CONGRESSMAN DE LA GARZA: I have written to you in the past as a constituent of your District and have been a campaign contributor and supporter.

I would like to bring a matter of special interest to your immediate attention. Undoubtedly, you are aware of the economic disaster created by the peso devaluation and currency control. It is my hope that your efforts can be instrumental in easing the peso disaster we are now experiencing on the U.S.-Mexican border.

We need an immediate arrangement through the United States Government to create a market for the peso in the same way that the U.S. Government has done with the Indian rupee. This would allow the local banks to accept pesos in exchange at a fixed rate—preferably one comparable to the rate of 70 to 1 being offered by the banks in Mexico. The U.S. Government would then repatriate the pesos to Mexico as it purchases oil or pays other bills and accounts there, thereby forcing Mexico to accept its own currency.

This action should be limited only to the banks in those geographical areas specifically affected, i.e., the border, San Antonio, San Diego, and other similar areas throughout the country.

Our business last year was approximately $4 million in gross sales. Our business at the present time is off 93 percent due to the Mexican peso situation.

Further, we are faced with the real possibility of the termination of approximately 17 employees who depend totally upon their job support from this business for their livelihood and family living. We do have a serious emergency disaster in those areas affected by the peso devaluation and currency control freeze of exchange.

Thank you for your consideration and attention to this matter in advance. We would appreciate some action at the earliest date possible.

Sincerely,

JOE KOWNSLAR, *President.*

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SARA SKAGGS & CO.,
*McAllen, Tex., September 29, 1982.*

President RONALD REAGAN,
*The White House,*
*Washington, D.C.*

DEAR MR. PRESIDENT: The Mexican Government not only has stopped free border commerce * * *. Mexican citizens cannot pay accounts due U.S. business, even though many are desirous of doing so. Sales are off * * * but collections are nil.

Border areas are interdependent upon each other and business on both sides of the U.S./Mexico border must have free trade in order to stay alive.

When our own area Chambers of Commerce cannot understand the immensity of the problem at hand, one can understand that it is difficult to see from Washington.

The idea of a U.S. Government clearing house for pesos * * * to be exchanged with Mexico for oil and other imports may be the only solution available.

We don't need S.B.A. loans. We need free border commerce.

Sincerely,

SARA SKAGGS.

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VALLEY AUTOMOTIVE PARTS WAREHOUSE,
*Mission, Tex., September 22, 1982.*

Hon. ELIGIO "KIKA" DE LA GARZA,
*Member of Congress,*
*Washington, D.C.*

DEAR KIKA: I enjoyed our recent telephone conversation and appreciate your taking time to go over the present situation which we are having with the peso here in the Valley. I have been talking to a number of our Mexican customers located in the immediate border as well as in the interior of Mexico and all indications are that their economic situation is not good, to say the least.

The drastic measures taken by the Mexican Government to curb inflation and the flight of American dollars out of their country are adversely affecting the international trade and commerce. We would like very much to be able to accept their currency at the rate set by Mexico, 70 for 1, but are unable to convert their pesos to dollars. I had thought we could work with the maquiladoras, or twin plants, that are located on the border. They were needing or having to pay their costs in Mexico in pesos, which we could supply in exchange for their dollars, however, according to the latest developments the Mexican government has relaxed their position in this regard and are now allowing them to deal in dollars as before.

Our businesses are suffering greatly here in the Valley, and any assistance that can be given us by way of finding a solution to our problems with regard to the peso would be appreciated. Is there some way that pesos could be recycled through Government assistance? I would appreciate your keeping us advised on any new developments on this situation.

With kindest personal regards to you and your family,

Very truly yours,

HECTOR H. CONTRERAS.

Mr. MITCHELL. I will lead off with Congressman de la Garza of Texas, and your bill is H.R. 7022.

Thank you very much for being here.

## TESTIMONY OF HON. KIKA DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. DE LA GARZA. Thank you very much, Mr. Chairman, and members of the committee.

First, Mr. Chairman, I greatly appreciate the cooperation we have had from you and your committee, and I also am very appreciative of your personal understanding about how critical the situation is for businesses along the border. I want to echo again our thanks for sending your general counsel and deputy general counsel down to the Texas-Mexico border area to make a factfinding investigation.

Not only were they well received, but I know the people in my district were glad to visit with them to share their deep concern and to supply them with needed information. It gave your staff members good insight into the multitude of problems facing border businesses.

You have stated the basic problem, Mr. Chairman, but let me just tell you the problems extend far beyond the border; as the border area loses the trade from Mexico, then the suppliers from Illinois, from Michigan, from New Jersey, from throughout the United States, lose. So we are not just dealing with what happens in McAllen, Tex., but also with the impact the Mexican financial crisis is having on the border area, on Texas, and the supplying States throughout the Nation.

Very briefly, Mr. Chairman, to further emphasize, let me back up. The intent of H.R. 7022 is to restore SBA emergency assistance for economic injury caused by factors other than a physical disaster. We are still finding out what the Gramm-Latta bill did. This is one of the areas that, unbeknown to us, the complicated mess called Gramm-Latta One eliminated. Put in place a few years ago, the SBA's non-physical economic injury program was killed in Gramm Latta One. The ill effects of the Gramm-Latta still linger on; daily, we continue to find actions authorized in that legislation to the detriment of the people.

Let's further emphasize for the record that Texas cities reported retail sales declined drastically for the last week in August: Eagle Pass, about midway on the Texas border, was down 82 percent; Brownsville at the gulf coast and Laredo further inland, were down 72 percent; El Paso was down 62 percent. City officials in border towns estimate a 30 to 60-percent decline in municipal revenues. Our Texas sales tax is applicable to residents and nonresidents. So cities along the border must cope not only with cuts in Federal Government programs but also with a major decline in municipal revenues from sales tax, bridge tolls, and so forth.

The McAllen Chamber of Commerce reports the metropolitan border areas SMSA's employ from 90,000 to 100,000 in small businesses. A 10-percent reduction in staff means about 10,000 jobs, which is the equivalent of two Braniff shutdowns in just a few communities on the Texas border.

I might add, Mr. Chairman, to what I have already said about the trickle effect. A number of local businesses who are not dependent upon Mexican trade have written me their sales and services have experienced a 40- to 60-percent downturn. These are businesses not dependent on the Mexican trade, but who provide sales and services to local people, and they are hurt by the same devaluation.

Now, I know some of the problems, Mr. Chairman, are beyond the scope of jurisdiction of this committee. Therefore, I thank you so very, very much on behalf of all the people of the border area, particularly those of my district, for providing a forum in which attention can be focused on the many ramifications of the peso devaluations and the nationalization of Mexican banks on U.S. businesses.

Of particular importance is the urgent need to establish an exchange system for converting pesos into dollars.

We have had no cooperation at all from the Federal Reserve or from Treasury on this critical issue. I have written the President advising him of the need for an exchange system and requesting an audience. The only reply is that it will be placed in the hands of the appropriate officials in the White House.

As we look at the areas of possible assistance from the administration and the results of our efforts to get some action, we see only negative responses or a lack of attention. My personal conversations with people at Treasury and with Mr. Volcker himself at the Federal Reserve have been cool, if not downright negative.

Our appeal to you is to focus attention on the disastrous situation along the border. We are dealing solely with small business entities. There are no major corporations, no General Electrics, no ITT's. These are small businessmen up and down the border areas who, through no fault of their own, are suffering a tremendous burden upon their businesses. Many of the them are on the verge of bankruptcy. Many, of course, will have to go into bankruptcy through no fault of their own. If there is any way the Government can intervene to assist them, we would urge the appropriate action be taken.

Mr. Chairman, you have already done a positive thing for us by sending your counsel and deputy counsel. As a result, many people in our area feel that somebody in Washington cares. For that, we thank you. Now we need to show the people that the Government will take some positive steps to alleviate the adverse impact of the Mexican financial crisis along the border.

I will not take up your time to read my entire statement, but submit it for the record.

Mr. MITCHELL. Without objection, your entire statement will be inserted in the record.

[Mr. de la Garza's prepared statement follows:]

PREPARED STATEMENT OF HON. KIKA DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman and members of the committee, I want to thank you for this opportunity to focus attention on the devastating economic situation in areas of the United States adjacent to the Mexican border following two peso devaluations this year, and the recent nationalization of Mexican banks.

In particular, I want to thank you, Mr. Chairman, for your extraordinary perceptiveness in taking up consideration of H.R. 7022 with such rapidity. Your action shows your understanding of how critical the situation is. I want especially to thank you for sending your general counsel and deputy general counsel down to the Texas-Mexico border areas to make a factfinding investigation. It made the local residents feel Washington really cares about what is happening to them.

Your staff members were well received in my District, I know, by the many businessmen and women with whom they talked. In addition to gathering information about the need for immediate action on the emergency assistance sought in my bill, your staff members were made aware of the wide range of problems arising from the Mexican financial crisis, some of which may be beyond the scope of your committee's jurisdiction.

H.R. 7022, which we are considering at this hearing, is designed to authorize the Small Business Administration to provide emergency loan assistance to areas that suffer severe economic dislocation resulting from drastic currency fluctuations in a country contiguous to the United States.

As you know, the SBA's program of emergency assistance in the form of low interest loans for businesses suffering economic injury not resulting from physical disasters was eliminated in the Budget Reconciliation Act of 1981. While the original program was in operation, it fulfilled its mandate well in most instances. As one example, the economic injury loans extended to businesses in my District after the 1976 peso devaluation enabled the majority of businesses hurt by that devaluation to pay their bills and to continue their operations until business conditions improved for them.

I also recognize some arguments for killing the program were based on the abuse of the program's objectives by the efforts of certain communities to use it for any type of economic downturn. That is why I have drafted my bill to limit emergency

assistance to this very specific instance of economic dislocation resulting from foreign currency fluctuations.

One of my constituents has described the gravity of the current situation along the border in a nutshell by saying, "It's not bad ***. It's real bad." The economic life of U.S. communities, both large and small, all along the Mexican border is inextricably linked with that of their sister cities on the Mexican side. Mike Kingston, Editor of the Texas Almanac, noted in an article in the Dallas Morning News on Sept. 23, 1982 "* * * Economically, the border area is a paradox. The Mexican side is one of the richest and most vital in that country; the Texas side is among the poorest in the United States. Both are among the fastest growing in each Nation * * *. Both national governments must realize that the borderlands need even more special treatment * * *."

Residents on both sides of the border have been accustomed to shopping with relative freedom in whichever country they found the best products and bargains. Manufacturers and wholesalers on both sides have been dependent upon one another for goods and services.

In recent years, the Mexican Government maintained the peso at its 1976 level while the country was experiencing a higher rate of inflation than the U.S. As a result, Mexican pesos went further on the U.S. side of the border. U.S. businesses responded to the rapidly growing trade from Mexico by expanding their facilities, inventories, and services.

The two border economies have become even more closely linked with Mexico's encouragement of the development of the twin plant concept. The "maquiladoras" or twin plants located on the Mexican side have been manufacturing highly competitive products and components because of the availability of low-cost labor and Mexican Government tax incentives.

In February 1982, a 30 percent devaluation of the peso seriously hurt U.S. businesses along the border. While still reeling from the resulting severe downtrend, businesses were hit by a second peso devaluation in August and the nationalization of Mexican banks on September 1. They have been left high and dry with stores full of merchandise, houses under construction, expanded facilities and services now unused, and large accounts payable. After two peso devaluations this year, the U.S. purchasing power of Mexican customers has been cut by 75 percent. The shoppers and other commercial trade have disappeared from the U.S. side of the border and so has the income to pay outstanding bills and meet payrolls.

The facts and words from local business people in my District tell the story better than I can.

Texas cities reported retail sales declined drastically for the last week in August: Eagle Pass down 82 percent; Brownsville and Laredo down 72 percent, and El Paso down 62 percent.

Latest reports for September sales in Hidalgo County including McAllen show sales down 75 percent, and some companies laying off as many as 80 percent of their employees.

A McAllen City Commissioner tells me, "Business has literally come to a halt. Hundreds of employees have been laid off, work hours for others have been cut to 30 hours a week or less."

Brownsville auto dealers report area sales are down 80 percent.

City officials in border towns estimate a 30 to 60 percent decline in municipal revenues from sales taxes, bridge tolls, etc.

A Mission, Texas, produce and food wholesaler, in business for over 19 years, reports his produce business is off 98 percent. He is owed over $560,000 by Mexicans and is holding as much as $300,000 in uncashable checks from Mexico. He says, "My Mexican customers can't pay me because they have no dollars. If my customers were to pay me in pesos, I can't use the pesos to buy merchandise from Mexico because payment is demanded in dollars instead of pesos. Kika, I'm lost at both ends."

The McAllen Chamber of Commerce reports that metropolitan border areas in Texas employ 90,000 to 100,000 in small businesses. A 10 percent reduction in staffing means the loss of about 10,000 jobs, equivalent to the impact of two Braniff airway shutdowns.

In assessing the impact of the peso devaluations on electronics distributors, one distributor writes me, "Our sales have dropped 40 to 95 percent. You must realize we can't last too much longer under these circumstances, even though we lay off employees and cut other costs."

A McAllen realtor tells me, "Many Mexicans are no longer able to pay for their homes or their condominiums, and they will lose them. Our business will suffer as far as the Mexican trade is concerned, for even those who do have the money are

hesitant to purchase for fear the Mexican government will retaliate against them in some manner."

A hardware store owner in Brownsville reports August 1982 sales of $107,000 compared to $197,000 in August 1981.

The owner of an automotive parts warehouse in Mission wrote me, "* * * We would like very much to be able to accept their currency at the rate set by Mexico, 70 for 1, but are unable to convert the pesos to dollars * * *. Our businesses are suffering greatly here in the valley * * *. Is there some way that pesos could be recycled through Government assistance?"

A group of McAllen businessmen wired me, "Unless we get immediate help, the McAllen area will see more than 100 businesses go bankrupt."

A businessman from Mercedes who trades with Mexican companies wrote me, "Our Government encourages us to do business abroad to help balance the economy. My own small business has almost $2 million tied up in Mexico right now. We are at a complete standstill as of September 1. We can't collect our money, we can't use our Mexican bank account, we can't pay our bills, and when it comes tax time Uncle Sam can go to hell just like we did."

A number of business people whose businesses are not dependent upon Mexican trade have written me their sales and services have experienced a 40 to 60 percent downturn, because their customers are local businesses hurt by the peso devaluations.

I could go on and on about the loss of income, lost jobs and the potential business failures. As formal statements come in from business people and officials in my District, I will add them to the hearing record. I know you will be receiving many statements from border residents in all the states adversely affected by the Mexican financial crisis.

They will tell the same sad story of business disasters along the border. It is important to note the problems will not be confined to a strip along the border. The border troubles will produce a ripple effect extending into commerce throughout the country and causing a loss of revenue and increased social service costs for city, county, State and Federal Governments. Time is of the essence in dealing with the situation.

H.R. 7022 cannot deal with the full scope of the problems faced by border businesses, but it can go a long way toward giving them some breathing room. The SBA has expanded its direct loan program in the border areas but its current 14¾ percent interest rate (and the 14½ percent rate to go into effect on October 1) puts too high a burden on businesses suffering a drastic decline in sales. What the business people need are low interest loans and deferred payment periods to help them through the liquidity crisis and economic downturn. H.R. 7022 will enable businesses closely tied to the Mexican economy to survive the liquidity crisis which may be more temporary than the economic downturn.

Although I have not put in my bill a specific interest rate for emergency assistance, my assumption is the SBA will use the lowest interest rate available for disaster assistance. Right now, the disaster assistance interest rate is 8 percent for businesses that cannot obtain credit elsewhere.

The Federal Government's cost for providing emergency assistance through H.R. 7022 is difficult to estimate. The actual net cost may even be on the minus side because the program will fund loans rather than grants; jobs and businesses will be saved; local, state and Federal revenues will be saved; and, there will not be such an increase in social service costs. Initial loan outlays which could run from a low of $30 million up to a high of $50 to $60 million for the entire border region will be offset by loan repayments going into a revolving fund during coming years.

Once again, I cannot emphasize strongly enough the need for immediate steps to alleviate the catastrophic conditions faced by businesses along the border. H.R. 7022 would be one step in that direction. I urge the committee to take immediate action on the bill and to bring it before the Congress without delay.

In closing, Mr. Chairman, I would like to bring to your attention and to the attention of members of the committee other critical steps that need to be taken to assist the border areas, even though they may be beyond the jurisdiction of your committee.

It is mandatory that our Government establish a system for converting Mexican pesos into U.S. dollars. The lack of action in that direction is causing irreparable damage on both sides of the border. I would like to submit for the hearing record a letter I have sent President Reagan urging immediate action in setting up an exchange system.

The administration has not requested funding for the SBA's regular direct loan program in the fiscal year 1983 budget. The program will expire on September 30,

1982, unless renewed by the Congress either in the budget or by continuing resolution. District SBA offices will not be able to complete by September 30 all the necessary processing for loan applications filed under the SBA's Peso Pack Program. Many have applied for the Peso Pack loans despite the 14¾ percent interest rate, because they know this is their only alternative until action is taken on H.R. 7022.

Mr. Chairman and members of the committee, I thank you for your time and for your concern. I hope I have conveyed to you the sense of urgency in dealing with the situation along the border. If I can be of any further assistance, do not hesitate to let me know.

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HOUSE OF REPRESENTATIVES,
*Washington, D.C., September 17, 1982.*

Hon. RONALD REAGAN,
*President of the United States,*
*The White House,*
*Washington, D.C.*

DEAR MR. PRESIDENT: Emergency actions taken by the government of Mexico to handle its financial crisis have resulted in commercial chaos along the Texas-Mexico border. The Mexican customer cannot pay the dollars they owe for purchases and investments made on the United States side of the border. Border merchants cannot accept Mexican pesos because there is no convertibility.

It is mandatory that our government establish a system for converting Mexican pesos into U.S. dollars. The lack of action in that direction could well cause irreparable damage socially, economically and politically, not only along the U.S.-Mexico border but within the confines of our southern neighbor's republic. We need a clearinghouse of some kind so that the exchange can be established.

It is essential that our government find some way to work with the Mexican government not only for the relaxation of Mexican currency controls along our southern border, but also to establish a more normal flow of commerce and trade between Mexico and the United States border cities.

It is understandable that my concern relates to my own district, four counties of which border Mexico. We are looking at devastated American businesses. We are looking at potential bankruptcies. There is no trade between the two areas, which are interdependent. There must be a resumption of trade or the black market in pesos will go out of control.

Certainly someone in our government has the ability and the knowhow to modify this situation. This absence of trade on the United States border will have a ripple effect throughout the United States economically.

Mr. President, there is no way that we can sit back and avoid involving our government in this area. If this nation does not act soon we may likely rue the day that we did not.

Our people are depending on our nation's government for this effort.

I seek an audience with you so that I may explain to you, on a one-to-one basis, exactly what is happening along the border. I do not feel that the proper attention is being paid to this acute crisis.

With my very highest regards, I am

Sincerely,

E (KIKA) DE LA GARZA,
*Member of Congress.*

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THE WHITE HOUSE,
*Washington, D.C., September 23, 1982.*

Hon. E (KIKA) DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR KIKA: The President has asked me to thank you for your letter of September 17 in which you outlined some of the problems which border communities are experiencing as a result of Mexico's financial difficulties. In your correspondence you also requested the opportunity to meet with the President to discuss this matter in greater detail.

We appreciated hearing from you, and I have taken the liberty of sharing your concerns and suggestions with the appropriate officials. In addition, I have contacted the Scheduling Office in regard to your request for a meeting with President Reagan. You should be hearing further as soon as a determination can be made.

With best wishes,

Sincerely,

KENNETH M. DUBERSTEIN,
*Assistant to the President.*

PAUL W. SULLIVAN,
*McAllen, Tex., September 27, 1982.*

Re SBA hearing, September 29.

Congressman KIKA DE LA GARZA,
*House of Representatives,*
*Washington, D.C.*

DEAR KIKA: In reference to the above hearing it is very vital that the SBA officials understand the impact that the Mexican Peso devaluation has had on McAllen and other cities along the Rio Grande.

The original city budget for the City of McAllen was based on seven million dollars worth of sales tax revenue; however, after the devaluation of the Mexican peso it has become very obvious to us that this goal will not be reached.

As City officials we have worked for several weeks not putting down on all possible services that can be cut within our city limits and have set the upcoming estimated sales tax revenue at five million two hundred and fifty thousand dollars.

Since we have adopted said budget it has becomes quite apparent that the estimated income from sales taxes will be considerably less, therefore we have requested a quarterly meeting with our City Manager to adjust the budget accordingly. This will mean that we will have to cut services and lay off additional personnel over and above those already laid off as a direct result of loss of revenue.

The latest reports now show that retail sales in Hidalgo County are off as much as 75% and many companies have laid off as much as 80% of their employees.

Unless some relief is received immediately for our retail businesses we do anticipate more losses in sales tax revenue, lay off of personnel within the city, and a tremendous layoff in the private sector.

Your continued effort in assisting this district is greatly appreciated.

Sincerely yours,

PAUL W. SULLIVAN,
*City Commissioner.*

Mr. MITCHELL. I have two questions. The first is, as stated in my opening statement about the authority and resources currently available to the Small Business Administration, is it your opinion that those current resources can at least help with the situation as of right now? For example, can the direct loan money prevent bankruptcies?

Mr. DE LA GARZA. Yes, Mr. Chairman. The SBA District Director in our area, Rodney Martin, has been very cooperative and helpful in trying to assist local businesses. Our concern is that SBA direct loan interest rates are way up there at 14½ or 14¾ percent. We need to offer emergency assistance loans with a lower interest rate.

Mr. MITCHELL. The second question is, based upon a very detailed staff report, it appears the long-range, most critical problem is the exchange rate. I regret you have not received the cooperation that you expected from Treasury and the Federal Reserve. Would you agree that really is the most critical problem of all, the exchange rate?

Mr. DE LA GARZA. Mr. Chairman. You are basically correct in that respect because you know you can assist small business with loans and all, but if they do not work out something on the exchange rate, there won't be any businesses to assist. For example, we have a friend, a small businessman in the produce business. He has been caught there with payments from Mexico in pesos, which

he cannot take to the bank. The bank will not take the pesos because they cannot trade the pesos to the Federal Reserve in Dallas.

I spoke personally with Mr. Volcker about this. I don't know if he minds me quoting him because it was a conversation on the record. He said that they are not going to take any foreign currency unless they have collateral from the country of origin. Mexico refuses to provide that.

I am informed by the Banking and Currency Committee that the Federal Reserve does in some instances accept foreign currencies when the Fed needs to prop up the dollar, sometimes it buys other currencies, German marks, or French francs, or English pounds. But when I called Volcker about this, he said, no, they are not going to do anything. Unless some action is taken, it will be very difficult. Because you have curtailed the exchange, in effect, you have curtailed the ability to do business. The Mexican cannot take dollars out; he has to pay in pesos. The American businessman cannot take the pesos to his bank and put them into the general economy because the Federal Reserve will not take the pesos from the bank. That bank then has to take the pesos to Mexico but it cannot transfer them to dollars because again—catch-22—Mexico will not let the bank take out the dollars.

So what happens? The government in Mexico has, in effect, put a complete, almost complete, stop to business intercourse between the border counties of the two nations, and we cannot get any assistance from our Central Bank, the Federal Reserve.

Mr. MITCHELL. Thank you.

Perhaps some of the members of this subcommittee might want to meet with the Banking Committee and see what these two committees can do in order to help out with this situation.

Congressman Hiler.

Mr. HILER. Congressman, I am not sure I am clear here. What is it you would like the Fed to do?

Mr. DE LA GARZA. We would like the Fed to accept Mexican pesos. You see, if a bank in McAllen, Tex., accepts 1,000 Mexican pesos from a depositor, the bank cannot put the pesos into the Federal Reserve System. The Federal Reserve in Dallas will not take pesos. So a business bank has no place to go with the pesos when they take them from the customer. The Federal Reserve can and does periodically accept foreign currency at a rate of exchange set by the Fed, but they refuse to do it in this instance.

Mr. HILER. Isn't the reason they refuse to do it because of the extreme volatility in the Mexican economy? Aren't they concerned about being left holding the bag?

Mr. DE LA GARZA. Well, yes, that is the basic thrust of what Mr. Volcker told me. Unless the Federal Reserve has the country of Mexico guaranteeing those pesos, it will not take them. Now I don't know if he has gone into details like that when they prop up the German mark or the French franc or so on, but I am informed by members of the Banking and Currency staff, and other members, the Fed does have that authority and could exercise it if they needed it.

Mr. HILER. Did the chairman of the Fed anticipate that with the new Mexican President in December, that there would be any agreement worked out between the Mexican Government and the

U.S. Government on establishing some better banking regulations between the two countries in light of what the current President of Mexico has done?

Mr. DE LA GARZA. Well, I don't know about that because Mexico already has nationalized the private banks. Of course, everyone eagerly anticipates the new President taking over, and there is hope things will change. I don't know. Knowing the Mexican system, it may well be that what has been done—I cannot second-guess—has been done in agreement with the incoming President. But certainly we hope for change. I don't think they are going to denationalize the banks. I think that is here to stay. Also, they want to stop the flow of dollars out of Mexico.

Our request to the Fed has been that we need help and you have the authority, supposedly, to help us. Granted, the Fed could conceivably get caught with some Mexican pesos, but the Mexican Government has set the official rate at 70 to 1, so if there is any agreement with Mexico, the Fed can always get the 70 to 1 official rate.

Besides, we have extended some Government-to-Government credits and assistance to the Mexican Government. I don't think the Federal Reserve is an agency unto itself, separate and apart completely from the Federal Government. It could get into the action.

Mr. HILER. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much, Congressman.

Mr. DE LA GARZA. Thank you, Mr. Chairman.

Mr. MITCHELL. Our next witness is the very distinguished Congressman from Arizona, Congressman Mo Udall. He will be speaking about his legislation, H.R. 7070. We are delighted you could be here.

## TESTIMONY OF HON. MORRIS K. UDALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. UDALL. Thank you, Mr. Chairman.

I am glad to be here. You, in your opening statement, and our colleague, Kika de la Garza, have outlined the main elements of the problem facing border areas as a result of the recent peso devaluation.

I will not add too much except to say that I've been visiting border communities in my district these past few weeks, and the situation is desperate.

I represent about 300 miles of that long U.S.-Mexico border and the problem is most evident in the cities along the border, which have very large Mexican populations on one side and relatively smaller U.S. communities on the other.

The peso devaluation is responsible for the closing of an estimated 20 percent of businesses along the border and for placing an additional 20 percent in jeopardy of closing. As a result, people have been cut off the employment rolls in large numbers, aggravating an already serious unemployment problem of 10.8 percent in Cochise County, 19.5 percent in Santa Cruz County, and 20.8 percent in Yuma County.

As Mr. de la Garza said, the problem filters out quickly to surrounding areas. My hometown of Tucson is 70 miles north of the border, but about 15 percent or more of sales in major stores are made to Mexican visitors. In recent weeks, these businesses have experienced significant declines in these sales. It's clear, you do not have the devastating impact along the border alone. It filters inland to major cities.

During a recent factfinding tour of the Peso Devaluation Task Force, led by Representative Hunter, similar stories of economic difficulty were spelled out all along the 1,700-mile border area.

I welcome the opportunity to bring to your attention the impact that the recent peso devaluation has had on my district, the Second Congressional District of Arizona, and to discuss my bill, H.R. 7070, a bill which will amend the Small Business Act to provide much needed relief to the economically distressed border areas.

Trade by Mexican citizens plays a vital role in Arizona's economy. In 1981, the estimated total direct-dollar impact of sales to Mexican visitors in Arizona reached $622 million, with the bulk of traffic occurring in border cities dominated by large Mexican-side populations such as Douglas, Nogales, and San Luis. Needless to say, while these towns are not the only victims of the economic blight that has come about as a result of the peso devaluation, it is these areas which have experienced the most dramatic impact.

Please allow me to point out some startling statistics that will illustrate the profound effect that the peso devaluation has had on the border economy in Arizona. Declines in sales of as much as 80 percent have been reported by many merchants along the border areas, seriously jeopardizing the solvency of many firms and bringing about the shutdown of others. An estimated 20 percent of these businesses have already gone under, and another 20 percent are on the brink. In an effort to remain afloat during these hard economic times, many business have layed off workers and/or resorted to reduced work schedules for their employees, thus aggravating an already high unemployment rate—caused by the Nation's general economic slump—of 10.8 percent in Cochise County, 19.5 percent in Santa Cruz County and 20.8 percent in Yuma County. In Nogales, the Capin Mercantile Co. has been forced to cut its employee rolls by 50 percent, reducing its work force from 1,200 to 600. Unfortunately, the impact of the peso devaluation is not limited to the immediate border area. Its adverse effects have been felt in other areas of the State as well. Tucson, a city 70 miles north of the border, which normally attributes 15 to 18 percent of its sales in major stores to Mexican visitors, has experienced significant declines in sales to Mexican nationals along with a decrease in its normally healthy tourist industry.

During a recent fact-finding tour of the Peso Devaluation Task Force, lead by Representative Duncan Hunter, similar stories of economic difficulty were spelled out all along the 1,760-mile border area. In California, Arizona, New Mexico, and Texas numerous small businesses have been devastated.

In response to economic conditions along the border area, the Small Business Administration announced on August 31 that it had created a new Government loan program dubbed "peso pack." The program offers up to $200 million in direct and guaranteed

loans to qualified businesses to provide immediate working capital and to assist with debt repayment. Direct loans are available at an interest rate of 14.75 percent with an average repayment deferral of 3 months.

Let me turn quickly to my bill, H.R. 7070, and to the administration's so-called peso pack program. Close examination reveals the peso pack to be a completely inadequate response to the critical problems facing the border.

I'm sure it's well intended and they're trying to help, but it really doesn't do much. Mr. Chairman, there is virtually no difference, if you test it out, between the conventional Small Business Administration loan and those made available under the peso pack.

Businesses hardest hit by the peso devaluation will find it difficult to meet the SBA loan eligibility requirements such as the 14.75-percent interest rate and short deferral in repayment of principal and interest. Understandably, the reaction in Arizona has been less than enthusiastic.

In Arizona only nine applications for peso pack loans have been received by the SBA. Of these nine, one has been declined, and the eight others are pending a determination.

Turning to my bill, H.R. 7070 would first reinstate the old pre-1981 SBA nonphysical disaster loan program, and make it specifically applicable to economic dislocations arising from foreign currency devaluation.

I emphasize, for the first time in our history the Small Business Administration's amendments of 1977 recognized that you could have disasters other than physical disasters, and specifically recognized currency devaluation as a nonphysical disaster. Last year, the nonphysical disaster loan program was restructured, but not funded by Congress. Even if it had been funded, however, we would not have the authority needed here, because the new nonphysical disaster loan program does not apply to economic dislocation arising from foreign currency devaluations.

Let me assure you, Mr. Chairman, if you go to Nogales today, as I did last week, the effect on the business community is just as bad as if there had been an earthquake, tornado, or giant flood. The entire business community has been decimated.

My bill would reinstate the pre-1981 nonphysical disaster loan programs. Small business in a qualified disaster area would be eligible for loans with interest rates as low as 8 percent, if conventional financing is not available.

I contrast the 8 percent with the 14- or 15-percent interest under peso pack. Under my bill, businesses could borrow up to $100,000 and payment of all interest and principal would be deferred 1 year, as opposed to the 3-month deferral period under the peso pack.

The loans could be used for working capital or to pay financial obligations which the business owner could otherwise have met had the disaster not occurred.

Funding for the program would come from the existing revolving fund for SBA disaster loans and be subject to the availability of such funds.

I don't contend my bill will solve all the problems that have been discussed today as pointed out by business interests in Nogales, the

ultimate solution is the return of customers and stability of the exchange rates.

However, my bill is, I think, an important component of any effort to help business weather this economic storm. I hope the committee will give it careful consideration.

Other problems associated with peso devaluation have been brought to light, not the least of which is the risk that border merchants take by accepting pesos from Mexican customers.

My colleague Mr. Gonzalez has proposed establishing an exchange facility designed to bring economic stability to the border areas. I think his proposal goes a long way toward helping us get back to business as usual along the border. I would urge the administration and this committee to examine it carefully.

My immediate concern, however, is that something be done and done soon. The effects of economic dislocation go far beyond the business problems I have described to you and have the potential to dramatically change the lives of many who make their home in the southwest region of our Nation.

I realize we are rapidly approaching the recess and this action may have to wait until the lame duck session, but I urge my colleagues to act quickly.

Many small businesses will not survive if we delay too long. I'm confident that by working together, we can provide relief to the serious problems facing the border businesses. Thank you, Mr. Chairman, and members of the committee.

[An additional submission of Mr. Udall follows:]

PREPARED STATEMENT OF HON. BRUCE BABBITT, GOVERNOR, STATE OF ARIZONA

I welcome this opportunity to express my strong support for H.R. 7070 sponsored by Congressman Morris Udall, which amends the Small Business Administration Act to provide emergency relief to economically distressed communities along the U.S.-Mexico border.

Mexican trade is of paramount importance to Arizona's economy and essential to the border communities of Douglas, Nogales, Yuma, and San Luis, which adjoin populous Mexican cities. Recent economic events in Mexico have crippled these towns.

To illustrate, the city of Nogales derives 90 percent of its retail sales from Mexican citizens. An individual store owner in Nogales reports an 80 percent drop in business from last year, placing his sales for August 1982 at sales levels 17 years ago, August 1965. This retailer's situation is typical of most other border retailers whose average sales declines of 60 to 80 percent will result in total projected losses of $60 to $250 million for 1982 alone.

As a result of the decline in sales, merchants have reduced their work forces by as much as 50 percent; these work force reductions have added to severe unemployment caused by copper industry layoffs in the same border areas. Approximately 20 percent of border businesses have closed, and many others are about to close. In order to stay in business, retailers have continued to accept pesos from their few remaining Mexican customers. Since the imposition of exchange controls in Mexico, however, banks in Arizona are no longer accepting peso deposits. Border merchants are unable to convert freely into dollars the pesos they hold. Accordingly, a peso glut has begun to develop, further reducing the value of the Mexican currency held by Arizona retailers.

The effects of the peso devaluation have not been limited to the border communities. Tucson, located 70 miles north of the border, normally derives 10 to 20 percent of its retail sales from Mexican visitors. Reductions in sales resulting from the devaluation will cost Tucson merchants up to $70 million this year.

The State's tourism industry also has suffered. In 1981, Mexican visitors accounted for 78 percent of the dollars spent by foreign nationals in Arizona. That percentage will be drastically reduced in 1982.

When the Mexican Government devalued the peso in 1976, the consequences were severe enough to warrant emergency Federal assistance for border retailers under

the Small Business Administration's Economic Dislocation Program. The 1982 devaluations have had a significantly worse impact on border businesses. Emergency assistance in the form of low interest loans to merchants is urgently needed to prevent further economic injury to the border area.

I have appealed to President Reagan on two occasions for his cooperation in establishing such an assistance program. Unfortunately, the SBA "Peso Pack" proposed by the administration has been inadequate in addressing the catastrophic problems experienced by border businesses. The loan eligibility requirements are too stringent, and the 14.75 percent interest rate is too high to give any real assistance to most of the affected merchants.

The loan program proposed in the bill introduced by Congressman Udall, H.R. 7070, will go a long way toward alleviating the economic crisis along the border. A similar program proved effective in deterring further economic dislocation in 1976, and there is every reason to believe it will do so in 1982.

The program proposed in H.R. 7070 does not require the appropriation of new funds. Rather, the program will be financed from surpluses in the existing SBA revolving fund for disaster loans. H.R. 7070 is a workable, realistic bill. The survival of most border businesses in Arizona, California and Texas depends on swift enactment of this bill. I strongly urge you to give H.R. 7070 your prompt consideration and to act quickly in passing this crucial legislation.

Mr. MITCHELL. We thank you for your statement, Mr. Chairman.

I, too, share some of your concerns over the fact that the crisis is here upon us in this area. The whole legislative process will be delayed should we not do anything on this legislation before the proposed date for adjournment.

Mr. UDALL. Some of it is psychological. The mere fact you are here taking testimony sends a message that help is on the way, that somebody in Washington cares, and that somebody is looking at it and may be able to help.

Mr. MITCHELL. I am grateful that it will have that impact, but I am more concerned about trying to do something immediately to meet the crisis in a better fashion. Apparently your major concern is that under peso pack, the interest rates are really exorbitantly high.

Mr. UDALL. It's the old banking story; interest on the loans is so high, only those who don't need the loans can afford them.

Mr. MITCHELL. That is exactly right, but the fortunate circumstance is, as I indicated in my opening statement, that under existing law, the Small Business Administration has the discretion to reduce this interest rate if it so desires. It can reduce it under 7(a)(4) of the Small Business Act. It may well be that in terms of this immediate crisis, that is where our push ought to be: To try to persuade the Small Business Administration to exercise its discretionary power to reduce the interest rate.

Mr. UDALL. The chairman has hit on an important point and I agree with him.

Mr. MITCHELL. In addition, under 5(e) of the act, the SBA already has the authority to defer payments or place a moratorium on repayment of existing loans for up to 5 years. It seems to me that is the other area we have to focus in while we wait for other legislative developments.

Mr. UDALL. I totally agree. I think the chairman has a good grasp of what is needed, and I agree.

Mr. MITCHELL. Thank you.

Congressman Hiler.

Mr. HILER. No questions, Mr. Chairman.

Mr. MITCHELL. Thank you very much, Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman.

Mr. MITCHELL. Next, we have Congressman Kazen, my very good friend and colleague, with whom I have had the pleasure of working all these years.

Good to see you.

## TESTIMONY OF HON. ABRAHAM KAZEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. KAZEN. Mr. Chairman, it is good to be before your committee. It is my first opportunity to be here before your committee and I want to tell you how pleased I am that in your usual efficient manner, you have grasped the foundation of our problem and not only that, but you are so well versed in all the facets of which this crisis has brought on the entire border area.

Mr. Chairman, I have a statement for the record, and I would request that it be placed therein.

Mr. MITCHELL. Without objection, the entire statement will be submitted for the record.

[Mr. Kazen's prepared statement follows:]

PREPARED STATEMENT OF HON. ABRAHAM KAZEN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

For years, the two Laredos—Laredo, Texas and Nuevo Laredo, Mexico—have enjoyed a flourishing free international trade second to none on the U.S.-Mexico border. Servicing an immediate estimated 400,000 population and a secondary market of 1 million people, these two cities fused together into a large metropolitan trade area.

Supply and demand attracted hundreds of businesses in retailing, export and import, customs brokers, freight forwarders, transportation, international trade, warehousing, home construction, tourism, and other endeavors such as oil and gas production and agriculture.

Two unprecedented peso devaluations occurring within a period of 6 months have had a major damaging effect on both Laredos, virtually ending the daily trade between the two cities. On the United States side, 80 to 90 percent of the businesses are directly affected by the crisis, with the unemployment rate soaring to an estimated 20 percent. Unemployment claims since August 4 reached 2,400, with 1,800 of these claims directly attributable to the currency exchange emergency. Last year during a similar period of time, the Texas Employment Commission processed only 353 initial claims.

Retail sales, as well as bridge collections, are down drastically because the retail trade relies heavily on purchases made by the Mexican shoppers.

The manager of Mall Del Norte, a large Laredo shopping center, said in a letter written August 24 that sales volumes were already off by 90 percent in some cases, and that personnel layoffs were as high as 40 percent in some of the larger stores, while the work hours of the remaining employees were reduced.

The peso was first devalued in February of this year when the Banco de Mexico decided to pull out of the international currency market and let the peso float. The immediate effect in the retail trade was a decrease in sales between 30 percent and 50 percent. No currency or exchange controls were imposed by Mexico and after a short period a free market rate for pesos was established between 47 and 49 pesos to the dollar. In July, a minor improvement in business was noted although most retail businesses were operating at a negative cash flow or break even basis since February.

On August 5, the Mexican Government devalued the peso for the second time in 6 months, setting off a fluctuation of between 80 and 95 up to 110 pesos to the dollar. In addition, for the first time, Mexico established currency controls which have seriously damaged businesses on our side of the border. Imagine the effects on the border cities of these controls: A three-tier exchange system that later became a two-tier system which dealt with a preferential rate of 50 pesos to one for certain businesses and 70 pesos to one for other transactions; the nationalization of all private banks in Mexico; freezing the exit and entry of pesos; barring Mexicans from taking dollars out of Mexico; and suspension of most import activities until it can be

determined which Mexican businessmen and industrialists are eligible to buy dollars at 50 to 1, and so on down a long list of restrictions.

The import and export trade through Laredo into and out of Mexico has almost collapsed and only a few exports and imports are being consummated. The tourist trade through Laredo has declined seriously. As examples, the Laredo bridge system reports that total vehicle traffic dropped from 499,019 in August 1981, to 457,991 in August of this year: An 8.22 percent reduction. Total passengers in vehicles dropped 7.15 percent and total foot passengers—a good indicator of downtown trade—was down 26.48 percent. Total freight, the proof of the problem, was off by more than 51 percent from August of last year.

Bridge system tolls were down by almost $74,000, a decrease of a little less than 20 percent from a year ago. The city of Laredo's general fund is composed of 54 percent retail trade and bridge collections, so it is obvious that the peso problem is causing severe indirect hardships on the border community.

Building permits for August tell the same story. In August 1981, 220 permits for construction valued at $5.7 million were recorded by the city of Laredo. In August of this year, the number of permits dropped by 35, and the value by $3.7 million.

The Laredo hotel and motel average occupancy rate was 80 percent in September 1981. At the end of August 1982, the rate was about 55 percent.

Mr. Chairman, the most serious consequence of the devaluation of the peso is the unavailability of exchange. The banks along the border will not exchange pesos for dollars. As a result, our merchants have no way of exchanging their Mexican currency, and therefore it has become very difficult for them to pay their bills.

When the provisions of this bill were in effect in 1976 and we suffered from a devaluation of the peso—which, granted, was not as severe as the present one—our local businessmen were able to obtain low interest rates which kept them going until the situation improved. Unfortunately, the action of the Gramm-Latta bill last year caused those provisions to be repealed. Hence, the necessity of this bill.

Mr. Chairman and members of the committee, let me urge you with all the fervor I can muster to pass this bill as soon as possible and save the entire border community of the United States from Brownsville, Texas, to San Diego, California.

Mr. KAZEN. Mr. Chairman, the border area from Brownsville to San Diego is a world all to itself. It really is. The people in Washington, and the people in Mexico, the two Governments, very seldom look at the effect that their dealings have along this so-called border.

I mean, cities are affected not just on the border itself, like Congressman Udall has stated, but those within 150, 200, to 400 miles that deal directly and then the entire country, as Congressman de la Garza has mentioned, to the suppliers of goods that are transferred between the two countries.

The immediate impact, Mr. Chairman, as has been stated, is on our small businesses; and many on the border, as you can imagine, are minority businesses.

Back in 1976, of course, we had a devaluation of the peso. At that time, we put the nonphysical disaster provisions in place. The Small Business Administration came in and loaned our people money under that emergency law and tided them over until things settled down and kept a lot of businesses from going under. It worked beautifully.

This year, as soon as this crisis came about, some of my constituents started calling me about trying to get some small business loans. I said, fine, go ahead and process them and we up here will do what we can with SBA to see that they can expedite the consideration of these applications.

Well, lo and behold, SBA people called me and said, Congressman, we do not have that authority any more.

Well, why don't you?

Well, Gramm-Latta repealed it.

Mr. Chairman, I was never so glad that I voted against Gramm-Latta as I was at that moment. Let me say that for the Small Business Administration, they have done a tremendous job and they are performing a great service but, as has been said this morning, peso pack is not going to work. If our people had the ability to pay 14¾ percent, they certainly would take advantage of the banking facilities and so on.

You have hit on another facet, Mr. Chairman, and that is the exchange provisions. Mr. Chairman, when one of my merchants takes in 1,000 pesos a day and they come to the bank, and say, business as usual, I am depositing 1,000 pesos to my account, in the past, that bank deposits the equivalent of 1,000 pesos, if the customer wanted it, in dollars now because that small business has to pay its bills to the suppliers of goods in Maryland, in any other State of the Union, and when they send stuff down there—Arrow shirts, dresses, shoes, and what-have-you—my stores have to pay them in dollars.

There is no way that they are going to get dollars now because the banks will not exchange the pesos for dollars.

So this is really the most urgent thing if we could get the Fed or the Treasury to do this. Congressmen de la Garza, Gonzalez, Udall, Burgener, and all of us along the border have been working together on this. We cannot get the Federal Government to come in and say, all right, we will take your pesos and exchange them for you at 70-to-1, which is what Mexico has tabbed it, but Mexico will not allow any dollars to come out of Mexico.

My freight forwarders, those people that handle the merchandise that goes into Mexico, as merchandise moves into the border, pick it up, see that it crosses the border, clears the border and everything. The Mexican client then sends them the amount of money that it took for them to handle the merchandise, but it has got to be in dollars because the freight forwarder has to pay his bills on the American side in dollars. Well, the Mexican client does not have any dollars because the Mexican Government will not let him operate in dollars. As a result, business has been stifled.

Mr. Chairman, let me bring this to your attention, Mexico is our fourth best customer in the world. We sell a heck of a lot of merchandise, goods, and services to Mexico, but if they cannot deal in dollars, you can imagine what has happened along the border. Everything is stifled.

It is not a strange thing for you to go, Mr. Chairman, anywhere from Brownsville to San Diego and find 20 percent unemployment. This snowballs. Our stores have laid off the sales personnel, laid them off outright, and in fact in 100 percent of the instances, if they are not laid off completely, they have cut back hours.

This, in turn, cuts back the buying powers of our own American citizens to where they cannot go to a restaurant and have a meal, and to where their buying power is completely diminished.

As a result, this is a disaster. Now, all of the bills before you, including ours, Mr. Chairman, reinstate as much as we possibly can the provisions that existed in 1976 that helped our small business people so much. We just reinstate them and provide for low-interest emergency loans to keep these businesses from going bankrupt, and to allow them to pay their bills.

Now, this is an emergency. I wish you could go and, let me say, I join the others in commending you for sending your staff down there. They did a beautiful job. Before that, we had a task force from the administration, Department of Commerce, and from Treasury, go down there.

They went down there the previous week to when your people went down. But we have not been able to get too much from the administration. These things are needed, Mr. Chairman.

We have to have some type of an exchange program, some type of a bank that will turn our peso exchange into dollars, turn that situation around. If we can get that stabilized, people will get used to it and start trading again, but there are so many things involved in this, and the crisis is so widespread.

We have American businesses that had accounts in Mexican banks in dollars; they cannot get those dollars. Mexico will not give up their dollar reserves.

Mr. HILER. Excuse me, Mr. Chairman.

Mr. KAZEN. My own individual constituents who had deposits in Mexican banks in dollars have lost those dollars. They can get their money back in pesos, but what will they do with pesos, Mr. Chairman. At the rate of exchange, they have lost a tremendous amount of money.

The question was asked earlier about what de la Madrid will do when he is inaugurated December 1. They have announced he will continue this policy of nationalizing the banks. So I don't see much hope there.

Mr. Chairman, I understand what the position is here as far as our timetable is concerned, but I would urge you and your committee, Mr. Chairman, to really press on this and give us some type of relief. It is not all the relief we need, this business of loans to keep businesses from going under, and a lot of them have.

Mr. Chairman, let me just give you this one figure here.

The unemployment rate has soared to an estimated 20 percent. Unemployment claims since August 4 reached 2,400. And 1,800 of these claims were directly attributable to the currency exchange emergency.

Last year during a similar period of time, the Texas Employment Commission processed only 353 initial claims. Now, you know, these are some of the things that we would hope that you can do. If you work with the Banking and Currency Committee, we have come up with another suggestion we made to the administration's task force.

There may be a legitimate reason, but why can't the United States pay some of the money that we send to Mexico in pesos instead of dollars? In other words, when you, Mr. Chairman, go to Nuevo Larédo, across the river from my hometown, or into Monterrey or Mexico City and you use a credit card to pay your hotel bill and your meals, that bill comes to you in the United States and you pay it in dollars and our company pays that bank back there in dollars. Why can't we pay it back in pesos?

Now, we have to do all we can to help Mexico; a sick Mexico is a sick United States, economically speaking. No question about it.

We have already advanced $1 billion against future deliveries of oil in dollars, not pesos, Mr. Chairman. We have extended them $1

billion in CCC credits so they can import grains and feed stuffs and things they need.

We are working with the International Monetary Fund encouraging them to work with Mexico to restructure their loans and to help them out. Everything that we can possibly do, we should be doing to bring Mexico out of this crisis because if we do not, we will be sunken. We are going to be mired in it, Mr. Chairman.

So these are some of the things that we ought to look at. If we do trade with them, why is it that neither the Treasury nor the Fed can take our constituents' pesos, trade them into our people for dollars, and then in the business that we do with Mexico deal in pesos with them instead of dollars?

I guess there is an obvious answer, that if we do that, we cannot prop up Mexico's economy because they have to have the dollars. It is a vicious circle, Mr. Chairman, I don't know what the answer is. But if I am frustrated, you can imagine how that small businessman along the border down there feels.

You know, when you just sit there, have a store, you have your utilities, your tremendous rents, Mr. Chairman. It makes you cry to go into those malls and see them empty, since neither our people nor the Mexican customers they have been dealing with are coming in to buy.

Mr. Chairman, it is awfully serious, and we do not have any other place to go. We have gone to the administration; we are hoping that something can be worked out. Certainly within your jurisdiction on these small business loans, you can be awfully helpful. Let me urge you, Mr. Chairman, knowing that you are very interested in this, and your entire committee is, too. I am sure that you will work as fast as you possibly can.

Mr. Chairman, I have taken too long, but thank you for your time.

Mr. MITCHELL. Thank you very much. I give you my word that we will work as fast and as assiduously as we can. Of course, the exchange rate problem is beyond the purview of this committee.

Mr. KAZEN. I understand.

Mr. MITCHELL. But there are enough members on this committee interested to the degree that we can at least sit down and talk with Banking and Currency and see if we cannot forge a coalition of some sort to try to deal with this problem. The only other statement I wanted to make is that some of us on this committee fought very hard against the elimination of the nonphysical disaster loan program. There is no way you can predict this kind of thing. We wanted it to be in place to be used for exactly this kind of situation, but the proponents of Gramm-Latta prevailed, and we face a difficulty now that we had not anticipated.

Mr. KAZEN. Let me remind you, Mr. Chairman, this has a tremendous impact on the Nation as a whole since Mexico is our fourth best customer in the world. We have to keep that market open.

Mr. MITCHELL. Thank you.

Mr. KAZEN. That is why we have to prop them up and make sure their economy is good because if it is not, our economy is going to suffer.

Mr. MITCHELL. Congressman Hiler.

Mr. HILER. Thank you, Mr. Chairman.

Congressman Kazen, just a question to help me better understand the situation. It seems to me that the long-term solution comes back to stability in exchange rates and ability to exchange. There will still be many business problems in the border towns if you had a 60-percent devaluation to begin with, but that ability to have exchange and to be able to function in international economic situations is critical.

One of the difficulties is that the Mexican Government will not let dollars leave the country except for what they would consider the priority use. In other words, they suffer a tremendous foreign exchange problem.

Mr. KAZEN. Yes.

Mr. HILER. Now it has been mentioned several times that if our Fed would accept pesos from people on this side of the border, then we could exchange them at the official rate of 70 to the dollar. Has the Mexican Government said they will honor the claims of our Federal Reserve?

Mr. KAZEN. I have no idea, Mr. Chairman. These are some of the things we are trying to get the Government—the powers that be—to start talking with Mexico about. We do not know. We cannot approach Mexico now. We do not have the ability, we do not have the expertise to deal in these international, complicated international financial issues.

Certainly we can throw out these suggestions as our people have done to your staff and to the task force, which went down there from Treasury and Commerce.

Mr. HILER. OK.

Mr. KAZEN. Whether or not it can be done, we do not know, but certainly some type of dialog somewhere, and we have to be careful about that too, I will tell this committee, because you cannot afford to have the United States get involved in internal affairs of another country. We have already heard some rumbles from Mexico, and that is the last we want to do. This is a very sensitive thing that I would think that our Government would have a hand in.

Mr. HILER. It would seem to me, I am just thinking out loud, that if the Mexican Government agreed to exchange 70 pesos to the dollar with our Fed, and if our Fed was getting the pesos from Mexico, Mexican citizens and they are buying goods and services across the border, it would be a backdoor way of circumventing the controls they have put on the flow of dollars, except for what they consider priorities.

I am thinking out loud that I, too, wish the Fed would make an exchange, but I can see where the Fed is boxed in, somewhat.

Mr. KAZEN. We are only talking about the border area merchants being able to do this, not the people in Mexico or in anywhere else. We are talking about these businesses along the border that take in the pesos.

Mr. HILER. They come from Mexican citizens.

Mr. KAZEN. That is right, for purchases made with the local merchants, not with anybody else, but with the local merchants.

Mr. HILER. So the Fed would need to set up a system to differentiate pesos obtained.

Mr. KAZEN. They have limits and they know the merchants. They know the people with accounts with the banks; they have done business for years. I don't know whether it will work, but this is what we have in mind. It would be impossible to throw it wide open, as you say.

Mr. HILER. Right.

Mr. KAZEN. We would be substituting ourselves for the Mexican Government's currency decisions and that is, of course, not desired at all.

Mr. HILER. Thank you very much.

Mr. MITCHELL. Just to comment, essentially that is what Congressman Gonzalez is shooting for in terms of his exchange facility right in the area to be supervised, I would assume, by Treasury and representatives from the Fed.

Mr. KAZEN. Correct, Mr. Chairman. We have joined the Congressman in that request.

Mr. HILER. Ultimately, though, you need the Mexican government to agree to exchange the pesos back for dollars.

Mr. KAZEN. This is done down the line somewhere, yes.

It is just like my bank, the Laredo National Bank, the chairman of the board told me yesterday, I said what happens if Sears or J.C. Penney comes from his little shoe store and deposits 10,000 pesos?

He says, well, I will hold it for him, I am not going to give him dollars. Whenever he wants pesos, I will give them back to him, but I cannot give him dollars.

Yet that poor fellow has to pay utilities, rent, help, taxes, everything in dollars and he ain't got it.

Mr. MITCHELL. Thank you very much, Congressman.

Mr. KAZEN. Thank you, Mr. Chairman.

Mr. MITCHELL. Congressman Edwards, please.

I am pleased to welcome a long-term friend and colleague who stood with me in many, many battles in this House and I stood alongside of him and I am proud of our friendship.

Mr. EDWARDS. Thank you, that is two ways.

Mr. MITCHELL. Thank you.

## TESTIMONY OF HON. DON EDWARDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. EDWARDS. I, too, commend the committee for doing this very important work.

The 22 California Democrats have introduced legislation which would reinstate section 7(b) of the Small Business Act to assist those businesses significantly injured by the August peso devaluation.

California, of course, has border towns like Calexico and San Ysidro, which are really in very, very serious trouble because of the difficulties which businesses are having. I bring to you, Mr. Chairman, a message from Mayor Tom Bradley of the great city of Los Angeles. His request is to pass the bill H.R. 7022, which, in part, would reinstate section 7(b) of the Small Business Act.

We want to thank Mayor Tom Bradley of Los Angeles for calling to our attention the need for this legislation, and we want to thank

the committee for holding hearings expeditiously to consider the several bills addressing this issue.

I respectfully request that Mayor Bradley's statement be placed in the record.

These businesses along the California-Mexican border are not asking for a handout, not for anything but these loan programs that will make it possible for them to stay in business until things are straightened out.

Mr. MITCHELL. Without objection Mayor Bradley's statement will be submitted for the record.

[Mr. Bradley's prepared statement follows:]

PREPARED STATEMENT OF HON. TOM BRADLEY, MAYOR, CITY OF LOS ANGELES, CALIF.

Thank you for the opportunity to express my views on H.R. 7022 concerning the reinstatement of portions of section 7(b) of the Small Business Act. This emergency legislation is vital to the lives of many small businesses adjacent to the Mexican border.

The recent peso devaluation and subsequent actions affecting dollars has worked a serious hardship on many border communities, including California towns like San Ysidro and Calexico. I visited this area less than 4 weeks ago and talked to the merchants who are struggling for their economic survival. I am sure many of the Members of Congress whose constituents live in these border towns can tell their own stories of hardship.

These small businessmen and their families have not asked for a handout, but rather for a helping hand to see them through this turbulent time. I believe that Congress should act swiftly to make available Federal long-term, low-interest loan programs similar to loan programs which were available up until August 13, 1981 under section 7(b) of the Small Business Act. This type of low interest loan program had been used previously to offset the economic effects of the peso devaluation in 1978.

This legislation now before your committee calls for the reinstitution of a loan program designed for specific application to economic dislocation arising from currency devaluation. The low-interest loans, which would be made available with payment of interest and principal deferred for 1 year, would give the border town businesses the chance to survive.

I am grateful for the positive and swift response of the 22-member California Democratic Congressional Delegation in cosponsoring this legislation on September 8.

It is my hope that the Committee on Small Business, ably lead by Chairman Parren J. Mitchell, will swiftly take action on this bill and send it on its way to consideration by the House.

These small businessmen need your help and they need it now.

Mr. EDWARDS. Thank you very much.

Mr. MITCHELL. Thank you, sir.

Congressman White, please.

## TESTIMONY OF HON. RICHARD C. WHITE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. WHITE. Thank you, Mr. Chairman.

Mr. MITCHELL. I want to welcome you and express our regret of a decision you made to leave us. We have chatted about that informally. Many of us hoped up to the last minute you would change your mind, but apparently you will not.

Mr. WHITE. Thank you, sir.

Mr. MITCHELL. I am delighted to have you before the subcommittee prior to your departure from the Congress in which you serve so very honorably and very well.

Mr. WHITE. Thank you, I want to compliment the committee for sending the task force down there. They were a great help first in

gleaning information from the areas, as well as instilling some hope and optimism in the people there who are in desperate shape.

I was going to submit a written statement because I realized you had a large number of witnesses, but I decided that with your indulgence, I would go ahead and present my testimony in person.

What we are trying to do is get statistics together to make the statement itself more valuable to the committee, so I ask that you please include my statement at this point.

Mr. MITCHELL. The record will be held open until such time as your statement is received.

[Mr. White's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD C. WHITE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I commend the chairman and members of the subcommittee for acting so promptly to schedule hearings on the impact of Mexico's currency crisis on the economic situation in the areas of the United States which are contiguous to the southern border.

There is mounting evidence that small businesses in the border communities are experiencing severe problems due to the most recent peso devaluation and the accompanying nationalization of the banks.

Businesses in the Southwestern United States have a close and thriving relationship with the people of Mexico. While Mexico is this Nation's fifth largest trade partner, the impact of our business dealings with that country is even more pronounced in areas such as the 16th Congressional District of Texas, which I represent.

In El Paso, for example, purchases by Mexican families and businesses accounted for approximately 12.5 percent of total sales last year, or about $300 million. Since the devaluation of the peso and other economic actions taken by the Mexican Government this summer, that figure has dropped to about $200 million as estimated on an annual basis.

Local merchants in my district have confirmed the stories of severe problems being experienced by small businesses. The Downtown Merchants Association has advised me that their members are experiencing recent drops in volume of sales of anywhere from 55 to 80 percent, depending on their proximity to the border.

Although comparable data from the smaller towns along the border is not available at this time, all indications are that the impact on those areas may be even more severe because any decline in their regular trade would have a far greater impact proportionately because of the smaller volume of trade in those communities.

The very survival of these businesses is at stake, so understandably they have turned to Washington for some assistance in adjusting to the economic dislocation they are experiencing.

The focus of the subcommittee's hearing today centers on three bills (H.R. 7022, H.R. 7070, and H.R. 7160) which are designed to authorize direct or guaranteed loans up to $100,000 to qualified businesses to provide them with immediate working capital and to assist with debt service. Rep. de la Garza's bill, H.R. 7022, which I am cosponsoring, would also allow the deferral of payment of principal and interest for 1 year, and would set the interest rate on the Federal share of the loan at 8 percent or less for firms unable to secure credit elsewhere.

Small businessmen in my district are heartened by the Small Business Administration's quick response in diverting previously authorized funds to a temporary loan program to assist them in the short run in responding to the peso devaluation. Yet our businessmen who are struggling to keep their businesses financially solvent also need assurance of long-term solutions which will help them weather out the continuing currency crisis.

Since a number of my colleagues have eloquently testified to the necessity of a permanent economic dislocation program, I would like to turn to another critical issue which has not yet been addressed, that is, the problem of converting pesos being received in the United States into dollars, and the converse problem of converting dollars into pesos.

As a possible solution to this problem, I propose that the Congress take steps to encourage development of a unilateral self-help program whereby each border community suffering from the peso devaluation would act on an individual basis in es-

tablishing a nonprofit pool of funds, pesos and dollars. The pool would initially be formed by deposits by the local financial institutions of the community. Through the mechanism of the pool, pesos would be exchanged for dollars and dollars for pesos at a fixed rate, with such rate subject to periodic review.

Four major groups of participants would be likely to utilize this pool of funds for exchange. First, tourists planning trips to Mexico could exchange dollars for pesos to be spent while making purchases in Mexico. On their return to the United States, they could convert any remaining pesos back into dollars.

Second, employers could deposit dollars into the pool in exchange for pesos, and then utilize these pesos to pay employees from or in Mexico who were willing to receive pesos for dollars.

Third, national credit card companies could deposit dollars into the pool in exchange for pesos, which could then be used to pay bills incurred by cardholders in Mexico.

Finally, local merchants would have the ability to deposit pesos from their business transactions into the exchange pool and then receive the equivalent value in the form of dollars.

This proposal requires that the Department of the Treasury and the Department of State negotiate with the Mexican Government to make arrangements for Mexican citizens working in the United States or those employed in the twin plants projects to be paid in pesos.

Through the joint effort of the border communities, this plan would provide definite advantages to the Government and to U.S. border cities. New income and corporate taxes from the accelerated transactions would generate additional tax revenues to the U.S. Treasury. Additionally, businesses and jobs would be preserved, thereby less bankruptcies would be sought, and there would be less demand for welfare, unemployment compensation, and food stamps.

In view of the fact that the currency problem originated outside of the United States, the options of our Government in devising solutions to this crisis are somewhat limited. However, a self-help program could be quickly put into place at little or no cost to the Government.

Through the cooperation of the local communities and the Federal Government, we may be taking one step further in easing the crisis that affects so many of our businesses and families.

Mr. WHITE. Mr. Chairman, and members, I come in support of the bills that have been introduced because something of this nature is desperately needed. You know the people that I represent are rather independent minded and they like to help themselves if they can.

So we made efforts in this way. For instance, I made a proposal to the Treasury in which I suggested that the Government assist the people in organizing a pool into which dollars can be deposited, under this arrangement, the credit card companies would pay bills charged in Mexico in pesos. Employers could pay people from Mexico in pesos, deposit the dollars and get the exchange in El Paso and other areas along the border where the twin plants set up in Mexico could also pay their employees in pesos instead of dollars and deposit dollars into the pool itself. Of course, the merchants themselves would then be able to get an exchange of their pesos in dollars. They would make the exchange in a pool set up by the people along the border, under the auspices of the chamber of commerce or whatever organization, of course.

One slight problem is that the Mexican Government has put a limit on exchange of pesos. For instance, they will not allow workers in Mexico to be paid in pesos even though they are working in Mexico. They want dollars.

The fact is Mexico apparently does not have any dollars. There have been a lot of savings accounts in Mexico into which people from the United States have been putting their money with expectation of getting a better rate of return than they might in the

United States. The contract was they would be paid in dollars on their interest and get the principal out in dollars. But the Mexican Government has said no; we will not pay you in dollars anymore. They broke their contract and they will not let them take out their money in dollars. So these people are caught. In fact, these people are finding themselves in great economic straits because they cannot even pay some of their payments and mortgages and other requirements; many of these people are retired. In other words, there is no way under the present circumstances that these people can help themselves.

The Treasury Department has indicated that their hands are tied. They are trying to negotiate with Mexico. They understand that Mexico is in trouble, and Mexico is trying to get their export-import situation straightened out. They are afraid that our relations might be jeopardized if the United States started making demands that were uncomfortable or difficult for the Mexican Government, so they will not help us.

The only last source is really this committee and passage of this particular bill, either under the vehicle of Kika de la Garza's bill, or Mr. Udall's bill.

What our constituents need are small business loans in order to be able to maintain and expand themselves over this critical period of time with some deferral of payments and a lower interest rate. If they cannot do that, you will find a tremendous number of bankruptcies that will occur. People will go out of business and people are going to be laid off.

I have gone down to my district and stayed in hotels in various towns. The hotels and motels are empty because on the weekends they used to be filled with people from Mexico who would come up to do purchases, see their doctors, or whatnot. In the first place, the American merchants cannot accept pesos because they do not know what to do with them. They are just paper money in their hands. That is one thing.

The Mexican people are fearful of coming up because they do not know the exchange rate and they know their money cannot purchase what it purchased before. So they are stymied over in Mexico and will not come across.

The malls used to be reasonably filled during the weekday or in the afternoons. Now the malls are ghost areas.

It is a very critical problem, Mr. Chairman.

If we do not give these people help, what is going to occur is that there will be a diminution of income taxes paid to the U.S. Government. There will be people taking bankruptcies.

There will be people on unemployment, they will go on welfare, get food stamps. It will come back to the United States in a less productive rather than a cycling way. We prefer to keep the businesses going, keep the people working, keep the economy moving until such time as the Mexican Government works out their dilemma. Perhaps the new President will inaugurate new policies. He is an economist who was trained in the United States, and who is friendly to the United States.

We feel there is a better day coming. But we have a period now in which we are going to have dire experiences in every community along the border.

You have heard in Congressman de la Garza's testimony of the dropoff of business in these areas. In the past we have found that of every $4 spent in Mexico, $3 comes back to the United States.

In other words, there is a recycling of money along the border. That has absolutely stopped.

So we appeal to the committee to come forward with this type of emergency help so these people can continue to have their self-respect.

Through this mechanism they can continue to be productive people of this country.

Mr. MITCHELL. Thank you so much.

The pool, with a caveat that they can't do much with the Mexican Government, Treasury agrees is a good idea?

Mr. WHITE. The American Government won't take the money because they are fearful they will have to take a loss. They are skeptical of the losses in the American firms, that they will put the money in and they won't get it back.

My retort is, yes, there is some risk but isn't it better to make a profit and have a going business in which they will realize some profit than to experience a zero or deficit situation and go broke? At least we will keep them surviving, if we can just make that one hurdle. If we could just get Mexico to eliminate certain restrictions that will allow the twin plant organizations to pay their people in pesos, then we can pool the dollars through the auspices of Treasury or some agency of Government.

If we could get the credit card associations to work out this program where they can pool dollars and pay credit card charges in pesos, that would be an enormous source of moneys for this exchange.

If we could get American employers to pay in pesos, buy the pesos from the pool, then Mexico would be likely to accept it, if we can just get across certain restrictions that are the catch-22 problems that we have along the border.

Mr. MITCHELL. The only other question that I wanted to put to you is if we can prevail on the Small Business Administration to use its discretionary authority to make loans under existing law but also to reduce the interest rates, and to use its discretionary authority in terms of a moratorium on repayment of principal and interest, would that not in effect accomplish the major objective of all three of these bills?

Mr. WHITE. It would indeed if there is money for that, and if SBA can do it. I am getting complaints already that the SBA is being very hard-nosed. You want them to be to a certain extent, but the people in my district need their help as well.

Mr. MITCHELL. If we could get them to operate in terms of the moratorium and the reduced interest rates, then we could work out the other problems of being hard-nosed. If we put that substantive change in we can work with other administrative problems.

Mr. WHITE. It is a mindset, too. The SBA has to understand this as a rescue operation so they cannot necessarily expect a man to come forward with a balance sheet that shows great opportunities in the immediate future. We are bringing them from down there to up here and they have to realize they are rescuing these people with this. You go further back and see their track record of profits

and success in the past, rather than look to the immediate timeframe which is going to show some drop in business, of course.

Mr. MITCHELL. Congressman Hiler?

Mr. HILER. Thank you, Mr. Chairman.

Congressman, once again, as with the previous congressman who testified, I am thinking a little out loud here. It would seem that the problem of the border businesses is lack of sales.

Mr. WHITE. Retailers, yes.

Mr. HILER. Basically the money that the SBA would forward to them in the form of a loan is nothing more than giving them money to pay—until they have some sales, of course, you can loan them all the money in the world and they are just going to go further and further into debt and unless there is a prospect for future sales down the line, you won't be able to pay that money back and the business will go out of business. The problem is no sales.

You say there are only five people in an entire mall, there are no sales. It is not like a business that says, I have plenty of sales but I have to get over a particular hump. I have inventory, I have to liquidate that, or something like that. But if there are no sales taking place, the money loaned is just an emergency situation, emergency money under the prospect that the exchange situation will stabilize out, and hopefully that will help sales return over some period of time.

Mr. WHITE. I understand what you are saying, but of course I would hope that the communities would not be standing still. I would hope they would try to devise a program similar to what I have been talking about, some type of self-help where you establish on the American side a rate of exchange that would instill confidence in the person from Mexico with pesos and in the merchants who exchange those pesos. They cannot take them because they are fearful they cannot do anything with them.

If we could just get our loan to carry us over and to implement something else, to span this period of time until Mexico gets itself out of their dilemma. If we could do that, then we can continue our economy. Otherwise, we will have a lot of businesses failing and there will be a lot of unemployment, with all its attendant social problems.

Mr. HILER. I am fascinated by the self-help idea of the exchange rates but what I am not clear on, Congressman White, is ultimately it comes back to the credit card companies paying off bills in pesos to those companies in Mexico that have allowed the sale to be made on a credit card.

Once again, it just seems to me that is a way the problem with the Mexican Government is; they are just not interested in having dollars or any form of dollars leaving their country.

Mr. WHITE. This wouldn't be leaving the country because they never had them. When a charge is made, they are not having the dollars in the first place. The hotels charge in pesos. All we are suggesting is that the American card companies pay them in pesos that they charge, rather than send the dollars.

Now, the U.S. Government is helping Mexico considerably, and intends to continue. Mexico is a fine neighbor, a great country, they have lots of resources. It is amazing they have this particular dilemma now. Insofar as we are helping, I should think there

would be a little flow the other way, and that other flow would be some agreement with Mexico that these credit card payments could be made in pesos at the point of charge.

That is all we are asking. We are not asking that dollars flee Mexico at all. We are not suggesting that the Government make the exchange over here. At no point in this self-help idea have we suggested Mexico pay out dollars. All we are saying is on our side we make the exchange, though pesos coming from Mexican tourists. The fourth element is U.S. tourists that go to Mexico and buy pesos with their dollars in these pools.

When they come back they exchange the pesos they didn't spend and get back dollars. That is another source of dollars. Of course they are going to leave a good portion of what they took with them in the form of purchases in Mexico.

Fine, we want to help the economy of Mexico, but we have to help the economy of the border area on the American side. They are closely tied and intertwined. Mexico should understand this. What helps our side helps them and vice versa. All we ask is let us help ourselves stabilize in some manner the currency situation on the border so our merchants can feel confident to continue trade.

Mr. HILER. That is the whole idea behind international trade and exchange rates to begin with. It benefits everybody.

I yield back the balance of my time.

Mr. MITCHELL. Congressman Daub.

Mr. DAUB. Just a comment that I think it is a worthy goal for pursuit. I personally hope that it is done within the relationship of the private sector businesses there on our side of the border, and would think that the banking system within those communities on our side of the border would be interested in pursuing perhaps the idea of guaranteeing some of that pool. So that could provide, could it not, a further incentive for all the businesses to put the dollars into the bank or the pool.

Mr. WHITE. You are right. But let me say, only two banks, as I understand, along the border are now taking in pesos and giving dollars for any type of transaction; both are in my hometown.

Mr. DAUB. Well, that is commendable but I would suggest to the banks there, other than the two, that probably their outstanding loan balance is affected by this serious problem, would be enhanced measurably by taking, if they see it as a further risk, to offer the guarantee against deposits of dollars into the pool so your idea could spring to life and work. I would think that this committee could even, by letter, offer its encouragement, Mr. Chairman, for a very fine idea that could probably work better.

I offer for your thought that item. Engage the financial community into a percentage guarantee for every dollar that goes into the pool. It doesn't necessarily cost them anything. In fact, it could cost more if the loans they have to our American businessmen go back, and they have to write that off against general deposits.

I want to commend you for coming to the committee today and bringing us I think an innovative idea, one that could be married up with some Government guarantee to the pool as opposed to some of the other thoughts of going in with small business loan money and using subsidized rates.

I remain to be convinced, though it is helpful, but we could get more right now with that encouragement on your idea.

Mr. WHITE. But it will take a catalytic intervention of this committee with the U.S. Government to get that much involved. We have asked for consultation and guidance but this committee could do a great deal. I contemplate the banks being involved very much, because they are the financial institutions in this idea.

Mr. DAUB. Ultimately, they stand to lose the most?

Mr. WHITE. That is right. The main idea is to fix a rate until such time as things improve.

Mr. DAUB. To avoid the Chrysler type bailout circumstance because it could be massive if you start to examine carefully what is happening, not just along the border—can I coin a new phrase—but it can trickle away. It will tend to multiply in geographic terms as you move from the border because businesses selling today that don't have customers, as our colleague points out, tend to buy probably merchandise for their inventories from a business further away, and it has that pyramid effect.

Mr. WHITE. One element is the agreement of the Mexican Government to allow payments for workers in Mexico and for credit cards to be made in pesos.

Mr. DAUB. That is a good point. It could be a stumbling block, but if they saw the pool emerge even in one town like yours, and saw that guarantee, for every American person you saw in the mall there were 10,000 put in guaranteed by the bank on the pool, and then you offer to the government on the other side, look, we are standing up for a dilemma that will really help you. Now you will have to give a little bit, too.

Thank you.

Mr. MITCHELL. I would just like to observe and suggest that perhaps you two gentlemen and Congressman Gonzalez and I meet with Freddie St Germain's Subcommittee on Banking to explore this idea further. I was struck by the fascinating simplicity of this pool. It is a great idea. I think your idea to have the banks play a greater role is also fantastic.

Mr. DAUB. Mr. Chairman, if you ask the Government to guarantee, in a way Mr. Hiler led me to the thinking, why don't we ask the private sector for operations that have a big stake as well to be involved in that rather than completely expect the Governments to do it?

Mr. WHITE. What I had in mind was for banks, each one in this pool, to put in a percentage of money and fix the rate say at 1 to 70, the same as the Government of Mexico has done. They would have that much investment in that pool. There may be a better way to do it.

Mr. DAUB. Ultimately, if there is a loss in the peso exchange, the businesses on our side that do venture the capital to form the pool are not in fear of any worse than break even. It would be the same as if you talk about a guarantee. There may be more to it, too. More than the fear that Mr. Hiler had of loaning the money to a business now and they cycle it through their bank account, $10,000 in SBA loan, half of which goes over the next 12 months to make payments back on the loan borrowed. If traffic doesn't improve in

that mall, we just extended the debt of America and are robbing Peter to pay Paul, as the saying goes.

Mr. MITCHELL. I hope that you gentlemen will join with me. But I still want almost to insist that in terms of this temporary crisis we are going to need some loan money for those businesses. The pool will be of no avail if the businesses are gone, and to diminish your concern about having to pay back immediately, we can use the deferment power that exists at SBA.

Mr. DAUB. As I said, Mr. Chairman, I remain to be convinced of that but I am openminded.

Mr. WHITE. May I interject, Mr. Chairman?

Mr. MITCHELL. Certainly.

Mr. WHITE. The problem is that you pay it in small business loans or you pay it out later in food stamps, and welfare, and whatever other social programs because part of these businesses, a lot of these, a percentage of them certainly are the employees themselves who need those jobs and, of course, the employers also, but it has a ripple effect.

Mr. DAUB. Mr. Chairman, if I may. I acknowledge that. We all know that for every private dollar of payroll we could be forced into $3 to $5 in the social services safety net costs of supporting someone who is not gainfully employed.

Mr. WHITE. At least you have a hope of repayment.

Mr. DAUB. I acknowledge that to be a serious problem as well. It is a matter of short term versus long term and being sure what we do today, that it doesn't become a serious problem of the future. We want to be careful about these kinds of things.

Mr. MITCHELL. Thank you so much.

Mr. WHITE. Thank you.

Mr. MITCHELL. Congressman Hunter.

I speak for all the members of the committee when we extend our gratitude and commendation to you, Congressman Hunter, for chairing that task force that moved quickly into the situation. Thank you for being here.

## TESTIMONY OF HON. DUNCAN HUNTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HUNTER. Thank you, Mr. Chairman. I have a statement for the record. I would like to ask that it be inserted, as I would speak simply to some problems addressed by previous speakers.

Mr. MITCHELL. Without objection, your statement is inserted in the record.

Mr. HUNTER. It is evident from the testimony given before my own, Mr. Chairman, that the problem is it is going to be a lot less expensive for this Nation to keep their businesses sustained along the border, and keep the business community alive than to pay welfare and the costs associated with a business collapse. Just to briefly explain my situation, I represent part of the Mexican-California border, the part that is nearest the community of San Diego.

We have about 164 businesses that have already lost upward of 60 percent of their business in the San Ysidro area. My colleague, Clair Burgener's area, Calexico, 15 to 20 percent of the businesses are closed.

I might cite an example to give you an idea of it. The Fed Mart is located in Calexico. As of August 15, 1982, Fed Mart's business had fallen off 65 percent. Since August 15 to today, it has fallen off to about 85 percent, or about 85 percent of the business has fallen off compared to last year.

Mr. MITCHELL. Excuse me. Can you translate that in terms of loss of jobs?

Mr. HUNTER. Certainly; they have laid off approximately 200 employees in that business alone, in that particular Fed Mart. The unemployment rate in Imperial County, which adjoins San Diego County and takes up the rest of the border, is now 34 percent. I would caution you that it is generally a fairly high unemployment area to begin with, but at least a portion of that unemployment rate is attributable to the problem we have had with the devaluation.

Let me get right to the heart of the matter because I think that particularly Congressman Kazen and Congressman White have really outlined the problem and some of the things we are looking at for solutions.

I totally endorse H.R. 7022. I think the problem brought out by Mr. Hiler is one that should be looked at and that is, our business people on the border are fairly smart people and they understand. That is one reason the SBA loans were not snapped up, the 14 percent loans, the Peso Pack, because these people realize you have to see economic opportunity on the other side of those loans before the loans are going to do them any good and do anything except basically hold off their demise for a few months or maybe a year longer.

Historically, the peso stability problem or exchange problem has righted itself after devaluations. I think, in 1976, we came back strongly in a short period of time. We had the benefit of these loans at that time.

Right now, a lot of the people don't see that same type of recovery that we had before, and the real problem, the real heart of the problem, again is exchanges.

We are working on a pool idea in California. Also, one of our ideas, for example, was to work on the payments made by vegetable growers to documented Mexican workers who come over and work in the vegetable fields; they are presently paid in dollars. Yet they go back and exchange their dollars for pesos to spend in Mexico where they live.

Our community plan there has at least proposed that perhaps our growers could pay their Mexican workers in pesos and they could use pesos that were put into the pool by merchants who received them from Mexican buyers who came across.

The problem is, do we need to have some Government participation. This was raised by Mr. Hiler. It is a problem that has to be addressed.

If the Government becomes involved, or if we find we don't have enough natural pesos that come out of this exchange program and we have to have some type of guarantee that is ultimately going to have to be guaranteed, or result in flow of pesos back to Mexico, his question was, how can we get Mexico to accept the pesos? That is the problem; they don't want to.

My solution—I have met with the Under Secretary of the Treasury along with other members of the task force—was this: That we have advanced Mexico upward of $1 billion in early payments for oil.

I would think that because Mexico is basically asking us for a loan, and we are giving it to them, that we can ask for a small accommodation. That accommodation would be to take a certain amount of money back in pesos in exchange for oil credits. I think, as Congressman White said, we are not talking about a national exchange program. We are talking about an exchange program that would only involve the communities and the businesses along the border.

If they could agree to take $100 million to $200 million back in pesos, it would seem that would be an accommodation they should be willing to make.

Now, the Under Secretary of the Treasury said that may be very difficult for them right now and we are undergoing these sensitive negotiations with them and we might not want them to have to make that; they might not want to make that commitment.

We offered as a further idea—I think we will have to be creative if we are going to come out of this mess—is perhaps we could say how about 1984 and 1985. Would you agree at this time so you have a cash crisis now, you have to have as many dollars as possible, you can't get the dollars, how about in 1984 and 1985? We know we will do petroleum business. Would you accept pesos back at that point in time at a certain rate? That would give our Government a certain guarantee, although they obviously lose the interest money accruing to this pool of money.

It would give them a guarantee that somewhere down the line they could take those back.

This could be a limited program. It would be based on the amount of gross sales that a merchant makes. Say if you are a grocery man in a border town and you do $1,000 worth of business a day, perhaps we could have a program where you get even 25 percent of your gross daily proceeds back or have exchanged about 25 percent of your gross proceeds from pesos into dollars.

So if you did $1,000 worth of business a day, you could exchange $250 worth of pesos a day.

Our communities, and in talks we have had and that we have been having in the task force, most of the business people have told us they don't need a subsidy. They don't want a subsidy, not 20 to the dollar, 40; they want a stable exchange rate and they would take it on a limited basis.

Even if they could exchange a portion of their gross daily proceeds that would be good for them. So I think that we are still working with the administration on this, and as Congressman Kazen said, they are talking with us and I know the President is going to be meeting with the President-elect of Mexico in about 2 weeks in San Diego and in Mexico. I would hope at that time they would consider that problem and the particular problem we have on the border.

One other problem we have—I think that perhaps was mentioned earlier—is that the Mexican Government formulated regulations prohibiting Americans from taking something in excess of

something like $470 worth of pesos back into Mexico. So that would be a problem with our exchange system.

If they are not going to allow more than $70 worth of pesos to come back into Mexico, we can't exchange, give a tourist $150 worth of pesos out of this pool, because, when he goes to Mexico and he has more than $70 worth of pesos, he will be in not water.

Even with that program, we are going to need cooperation from the Mexican Government. I would say that the idea of having some type of exchange facility is a reasonable idea and we could, if we had to, work out some community pool program if we had help, guidance, and perhaps a team of people from the Federal Government working and monitoring the program along with our banking community.

So with those statements I would like to thank you for your interest in this problem and your concern with your border communities.

I would be happy to answer any questions you folks might have.

[Mr. Hunter's prepared statement follows:]

PREPARED STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Thank you, Mr. Chairman, for allowing me to submit for the record my views regarding the devaluation of the Mexican peso, and its effect on bordering U.S. communities.

I represent the 42d Congressional District of California which includes the bordering cities of San Ysidro and Chula Vista. The residents of these cities have become extremely concerned about the impact of the peso on their businesses. It is safe to say that lost jobs, lost income and business failures have become prevalent in these communities. Since the Mexican customer spends approximately $500 million per year in San Diego county alone, it is also safe to say that very few of us will be immune from this problem or its effects. This recurring economic problem will, as in the past, trigger other serious problems such as loss of revenue for a city, county, State or Federal Government, increased costs for training displaced workers and even increased welfare rolls.

The tragedy of this economic situation stems from the fact that Mexican nationals, because of the rate of exchange, are very reluctant to shop in bordering counties. Even if Mexican nationals do shop, they pay for their purchases in pesos which leaves the merchant stock full of nonexchangeable Mexican pesos. Meanwhile, overhead costs are coming due for the merchant, but due in dollars, not pesos. Consequently, the merchant has nowhere to go to exchange his daily peso receipts for dollars. The resulting weakened economy has become extremely costly and damaging to our Nation in terms of lost production, lost jobs, and lost skills.

In order to pursue this matter further, let me explain the financial straits one such businessman has found himself in. Mr. Ed Kramer of San Diego is the owner of Fed-Mart Store in Calexico, California. As of August 15, 1982, Fed-Mart's business had fallen off 65 percent while laying off 200 employees. At present, Fed-Mart has lost over 85 percent of its business. Furthermore, Fed-Mart's sales have dropped a marked 70 percent in comparison of last year's sales at this time. Unfortunately, Mr. Kramer is not alone in this predicament. There are over 164 businesses in my district alone who have lost more than 60 percent of their daily business. In essence, the problem is multiplying rapidly with no relief in sight.

As you may know, I support the President's efforts to trim Federal spending and thus, I can understand the need for savings in the Small Business Administration budget. However, a closer look at the current situation in our bordering cities reveals areas which are in desperate need of assistance. For these reasons I support this important piece of legislation. H.R. 7022 would provide the needed assistance to areas of economic dislocation that are the result of drastic fluctuation in the value of the currency in a country contiguous to the United States. Although one's initial opposition to this legislation would be the increase in cost, I feel the overall net cost would result in a minus which will save welfare money, should no assistance be provided.

The fluctuation of the monetary exchange system between Mexico and the United States is, more than likely, a temporary situation. Consequently, assistance is needed to carry these merchants through this time period until they can be self-sustaining again. The funding of a Small Business Dislocation Loan Program would provide this avenue.

Mr. Chairman, I welcome my colleague's request for Small Business assistance in the form of economic dislocation loans for I believe this to be one of the most viable, immediate solutions available. I urge my colleagues to support this form of assistance, for if relief is not granted, we will all be paying much more further on down the road.

Mr. MITCHELL. Thank you very much.

Have you broached this idea with Mr. Volcker at the Federal Reserve?

Mr. HUNTER. No, but we talked with the Under Secretary, Beryl Sprinkel and with Don Regan. We will set up a couple of meetings before the end of the week with the Federal Reserve and also another meeting with the White House.

They ought to recognize and I think the overwhelming idea that came out of this discussion today, is that it is going to be a lot less expensive for this Nation to provide a viable means of doing business for our border communities than if we have a continuing collapse and ultimately the subsidization that will be necessary to sustain them. We will have a tremendous welfare state along the border, if we don't act.

Mr. MITCHELL. I would make one request of you; that is, I hope you keep us abreast of the developments occurring in the task force, through our staff. I certainly think we ought to be working in very close tandem on this.

Mr. HUNTER. I will do that and after our next meeting I will submit a memorandum describing the meeting and the results to your staff.

Mr. MITCHELL. Thank you very much.

Congressman Hiler?

Mr. HILER. Thank you very much.

I am sure this is the way the administration probably feels and I would presume it is the way the chairman of the Fed feels, that until December 1 or until we have had the first tentative talks with the new administration, the current administration of Mexico will not change one iota.

Mr. HUNTER. I think that is a reasonable assumption; that is right.

Mr. HILER. The new President of Mexico, from the box he has been put in by the current administration there, I am sure he considers it a box, his working out of it will be probably a slow procedure.

So your idea of in 1984 and 1985 allowing us to pay for some of our oil which we know we will be buying at 25 percent being paid in pesos or 20 percent and then our Government essentially storing pesos, and it is the Fed that does it, of course, it would seem that that would offer the best chance for success and then our Government, in turn, allowing for some exchange in the border area of up to that amount of dollars.

I think that has the most prospects for success because I just don't think you will see it stabilize out quickly at all.

Mr. HUNTER. I think you are right. It would seem that they are asking us for the loans, and it has been my experience when you ask for a loan and you are sitting across from the loaner and you are the loanee, it behooves you at times to make some accommodations.

I would think that that would be a reasonable question to Mexico.

Mr. HILER. Well, without question it is in our country's best interest to have a stable Mexico.

Mr. HUNTER. Sure.

Mr. HILER. To be going through the crisis they are going through, you know, we can be hardnosed up to a point and then the two countries are coming from two very different traditions and if we pushed too hard, we could be faced with a very serious problem in Mexico that would be to our great detriment.

So I think it is something that we have to be very careful about how we push the buttons in this particular case.

I think that is something that I would assume the Under Secretary and Secretary of the Treasury talk about the extreme sensitivity of negotiations right now, particularly as this lame duck of the current President before the new President comes in.

I commend you for your efforts. I have problems in my district; I am glad I don't have yours.

Thank you.

Mr. MITCHELL. Mr. Daub.

## OPENING STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. DAUB. I appreciate your taking the interest in this timely matter. The circumstances in Mexico which have led to the current economic difficulties for businesses near the border are a lesson to all countries that the economic integrity of a nation is a priority that cannot be ignored.

In these extraordinary circumstances it is the responsibility of the Government to determine whether temporary relief may be necessary. I commend the new SBA Administrator, James Sanders, for reacting as quickly as he did to the circumstances. It is this kind of commitment to small business that we expect from the SBA, and I am greatly encouraged by Mr. Sander's actions.

Again, I am grateful for the interest of the committee and hope that the Congress and the administration will take the necessary actions.

I personally want to salute you, Representative Duncan Hunter, for the personal service you render to your district in a very, very wrenching problem. Knowing of your excellent representation of Hispanic and Latino people in your district before you came to Congress, it is no wonder that you are here.

I think you do effectively represent your constituents. I have watched Mexico in the last 10 years and its drift to the left, if you will, and worry about the circumstances concerning not only the current administration on its way out, but the serious problems the new one there will face.

I see $70 to $80 billion in debt to our banks on a direct basis and no one knows what the ultimate amount of money may be through the international banks that have been our dollar loans to those banks and, in turn, loaned to Mexico.

Mr. HUNTER. That is right.

Mr. DAUB. They speculate some $80 to $90 billion, massive sums of money. So, again, Mr. Hiler's point about the sensitivity of loanee and loaner but how hard we push, for great consequences are in store for us. I really believe we are rocking at getting a game plan together that will be negotiated December 1. That would be my add on comment. So be ready and continue to work. The chairman has asked your assistance in letting us know. We would like to do all we can to be helpful.

Thank you.

Mr. HUNTER. Thank you, and I really appreciate your interest and the time you have taken today with our problem, which is America's problem.

Mr. MITCHELL. It is America's problem.

Thank you for your comments. May I digress just a moment and put on my Banking Committee hat?

The problem with Mexico right now is but a part of what could be an enormous problem for this country. If there is any sudden massive defaulting on loans that have been made by other banks throughout the world, God only knows what would happen to our economy.

I think it is critical, therefore, that the administration move expeditiously and carefully with this Mexican situation.

Mr. DAUB. I would hope, Mr. Chairman, with your two hats on, that you would encourage the Banking Committee, from a small business point of view, to look at this international loan process and the subsidized rates of interest that are just bringing this problem quicker and quicker to our doorstep. Everybody is coming here for more and more money, we have given out so much, we cannot get the principal or the interest repaid.

Mr. MITCHELL. Our last witness is Mr. Peter Terpeluk, Acting Deputy Administrator of the SBA. Mr. Terpeluk.

**TESTIMONY OF PETER TERPELUK, JR., ACTING DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY REYNALDO LOPEZ, REGION VI ADMINISTRATOR; AND CHARLES HERTZBERG, DEPUTY ASSOCIATE ADMINISTRATOR FOR FINANCIAL ASSISTANCE, SBA**

Mr. TERPELUK. Thank you, Mr. Chairman, for this opportunity to appear before your subcommittee.

Jim Sanders, our Administrator, thought it would be appropriate to have Ray Lopez, our Regional Administrator from Texas, who is seated to my right, attend this hearing. I think Mr. Lopez is in a unique position, having been one of the original architects of the package, to give a hands-on status report as to the assistance the agency provided to those small businesses hurt by the devaluation of the peso. Chuck Hertzberg, our Deputy Associate Administrator for Financial Assistance, has also accompanied me today.

As I said, we welcome the opportunity to discuss this matter. As a result of the crisis, there have been thousands of small businesses from Texas to California which have suffered serious economic reverses.

On August 30, SBA Administrator James Sanders announced a positive, immediate response to this economic crisis to assist small businesses in the affected region.

I would like to go over, for the record, what this package includes.

First, freeing up as much as $200 million for possible use in direct and guaranteed loans for businesses suffering dramatic losses resulting from the sudden devaluation which dramatically lowered the purchasing power of Mexican customers of U.S. businesses along the border.

Second, encouraging banks which handle SBA loans to take a "more sensitive" approach to the needs of small businesses hurt by the crisis. Mr. Sanders noted that the Bank of America had offered to reduce interest rates at its branches in Chula Vista, Calexico, and San Diego in California. The loans will be at fixed rates up to $100,000 for as long as 5 years.

Third, activating more than 400 volunteer counselors for a "crisis management" assistance program for the affected small businesses. The volunteers come from SBA's Service Corps of Retired Executives [SCORE] and Active Corps of Executives [ACE].

Fourth, assigning SBA personnel from nearby district offices as "circuit riders" to take SBA service into smaller cities and communities to provide faster access to the agency's resources and extending the hours of SBA offices in the affected areas.

Mr. Lopez will comment on that later.

Direct and guaranteed loans are being made available to qualified businesses to provide immediate working capital and to assist with debt service. In addition, small businesses which presently have SBA loans can use the peso crisis as justification for seeking deferment of payments, extensions, and possible refinancing of present loan balances.

SBA also will seek assistance from small business resource centers such as those operated by chambers of commerce, small business development centers, and small business institutes operating in conjunction with agency programs. A central task force will continue to monitor this situation, seeking additional avenues of support for the small businesses impacted by the peso devaluation.

Understandably, there has been considerable concern in Congress about this situation, as well. Congressman de la Garza with cosponsors, Congressman Edwards with cosponsors, and Congressman Udall have introduced legislation. The de la Garza and Edwards bills are identical.

H.R. 7070, introduced by Congressman Udall, would allow small businesses in designated areas of economic dislocation—including the dislocation caused by foreign currency devaluation—to be eligible for direct or guaranteed loans, with interest rates on the Federal share as low as 8 percent for firms unable to secure private sector credit. Businesses could borrow up to $100,000. In addition, all interest and principal payments could be deferred for 1 year. Mr. de la Garza's bill, H.R. 7022, and Mr. Edwards' bill, H.R. 7160,

would also provide assistance to small businesses in areas of economic dislocation caused by the fluctuation in the value of currency in a country contiguous to the United States. The bill would authorize either direct or guaranteed loans up to $100,000. A deferral of payment of principal and interest for 1 year would be permitted. The interest rate on the Federal share of a loan would be 8 percent or less for firms unable to secure credit elsewhere. The Udall bill is broader than the de la Garza bill in that it would be triggered under conditions other than foreign currency devaluation.

Mr. Chairman, we are opposed to these bills for several reasons. Primarily, we are convinced that the SBA's regular business loan program under section 7(a) of the Small Business Act, which is already in place in Texas, Arizona, New Mexico, and California, can provide the assistance needed by the affected businesses. Our employees in these offices are specifically targeting their attention to those small businesses affected by this devaluation.

We are of the opinion that the 7(a) program is better suited to this situation; it is already in place and does not require the necessary startup time and uncertainty that a new program would generate during a period when quick action is essential. In the short 4 weeks since the agency announced the "Peso Package" initiatives, we have received 1,926 inquiries, given out approximately 1,339 applications, received 299 completed applications for $27,608,000. Of that, we approved 95 loans for $7.2 million, and declined 58 for $7.1 million. We have currently in the pipeline 152 applications for an estimated additional $11 million. In addition, 1,048 persons have been getting management assistance.

Under the terms of the economic dislocation loan program in the proposed legislation, small businesses which in SBA's judgment do have credit available elsewhere, would nevertheless be eligible for an SBA loan. This would constitute an unnecessary intrusion into the private banking system, would dissipate Government resources and displace, rather than supplement private capital. It is also directly contrary to the current economic injury loan program. Also, the loan limit under the proposed economic dislocation loan program is only $100,000, as opposed to a higher limit on the 7(a) program.

In addition, there are many other businesses located throughout the United States that were either manufacturing or exporting goods for shipment to Mexico that are suffering just as much as those located in the border States. Yet they would not be eligible for assistance under the economic dislocation loan program proposed in the two bills.

Mr. Chairman, the proposed legislation would reinstate a loan program which was specifically repealed in Public Law 97-35, the Budget Reconciliation Act of 1981.

In a hearing before the Senate Small Business Committee on May 15, 1981, the agency stated that the broad authority of the nonphysical disaster loan program, and in particular, the economic dislocation loan program, created a major threat to the budget by suggesting that such assistance is an entitlement. Those loans dissipated SBA's budgetary authority for dealing with the more tangible effects of physical disasters. We stated then, and we believe

that we are proving today, that our regular business loan programs are sufficient to handle economic dislocation matters.

If the proposed legislation is enacted, the SBA will once again be hampered by a loan program that by its very nature, can be triggered by just about any economic dislocation which is temporary in nature. As you are aware, the economic dislocation loan program was originally authorized in 1977 following the last major devaluation of the Mexican peso. However, over the years, the program continued to grow until it was being triggered by such situations as a lack of snow in 14 States, the perception of a fuel shortage, a Federal agency regulation impacting on commercial salmon fishermen, and the Olympic boycott. When the nonphysical disaster loan program was repealed last year, there was sound rationale behind that decision.

If Congress passes this special legislation for the Mexican exchange convertibility crisis, how can it say no to others who will come forward later with similar requests? Indeed, the legislation virtually invites such requests. The history of the previous program has shown that once this door is opened, it opens a Pandora's box. Every time there is an economic reversal somewhere in the economy, Congress and SBA will be asked to provide loans at deeply subsidized rates for these so-called nonphysical disasters. There will be no stopping the tide of requests. We found that out before. Subsidized loans are part true loan and part grant. We do not believe it to be the proper role of Government to provide interest subsidy grants to these situations.

If the two pending bills are enacted, that sound decision to repeal the nonphysical disaster loan program will be overturned and the Agency will once again find itself facing a deluge of requests for economic dislocations throughout the country, thus placing a drain on the resources of the disaster loan program.

In summary, Mr. Chairman, we must oppose the enactment of H.R. 7022, H.R. 7070, and H.R. 7160 because: One, the Agency's regular business loan program under section 7(a) is already in place in the border States; two, the 7(a) program is able to handle the financial needs of the affected small business community; three, enactment would reverse prior congressional policy established in the Budget Reconciliation Act of 1981 which repealed the nonphysical disaster loan program; and four, the reenactment of the economic dislocation loan program would result in a serious drain on the resources of the SBA disaster loan program and the Federal budget.

Mr. Chairman, I and my colleagues will be happy to answer any questions you have at this time.

I would just like to mention one other thing, Mr. Chairman, if I may. In 1977, when the program was initially begun and that was at the time of the previous devaluation of the peso, the figures were roughly about $21 million in loans in all those States.

That was over a 12-month period. That is with the program that is currently being proposed to be reenacted by the bills we are talking about here today.

I would just like to draw your attention to the fact that in 4 weeks, we have already given out $7.2 million in loans and we have about another $11.9 million in loans now in the pipeline that will

probably be cleaned up in the next week or two. My point is that the interest rate issue is not being reflected in the amount of loans in comparing the two peso crises. We found that to be interesting. We thought there may be an effect, but obviously there is not.

Mr. MITCHELL. Did Mr. Lopez wish to make a statement or respond?

Mr. TERPELUK. We will just respond to your questions, Mr. Chairman.

Mr. MITCHELL. I, of course, am not surprised by your opposition to the legislation that has been submitted. Indeed, I have stated time and time again, at least inferred strongly, that substantial help could be made available to these persons affected by this second peso devaluation if you use some of the broad authority that you have with reference to 7(a) loans.

The first question is, do you anticipate using that broad authority to reduce the interest rates or impose a moratorium in such cases as is required, not on a blanket basis but as you come across a case where this might well be justified?

Mr. TERPELUK. To be honest with you, Mr. Chairman, I would say with the current demand as it is coming in, I would say no. However, having sat here through all the testimony and listening to your points, which are well-taken, I will go back today and we will make a fresh reevaluation of the points you have made. There may be situations where it may be worthy to consider.

Mr. MITCHELL. I certainly would oppose any broad policy, as of now, that says for everyone affected, these conditions of lesser interest rates and moratorium would be imposed.

I know that presents some problems on a case-by-case basis. One borrower says why did he get a lower rate and I did not?

But I think it is the duty of a Federal agency to assess insofar as possible, on a case-by-case basis at the very least; so, I hope you take another look at it.

Let me ask you about the loans that you have made. This was in your statement. In 4 weeks, you indicate the inquiries and applications and completed applications. What percent of these have been direct loan moneys as opposed to bank guarantees?

Mr. TERPELUK. A very large percent, but Mr. Lopez may be able to answer that more specifically.

Mr. LOPEZ. Virtually all of them, Mr. Chairman, I would say in excess of 90 percent.

Mr. MITCHELL. Direct loan money?

Mr. LOPEZ. That is correct.

Mr. MITCHELL. How are you fixed for direct loan money, how much is left? Do you have a sufficient amount left to meet at least these other applications which are now pending?

Mr. TERPELUK. Right now, Mr. Chairman, our comptroller believes we are going to be able to meet what we have in the pipeline. Anything after that, I think, will probably take a close consideration and it will involve the OMB.

Mr. MITCHELL. In meeting the needs as demonstrated by those applications in the pipeline, are you or are you not cutting off direct loan applications for other meritorious cases around the country?

Mr. TERPELUK. Absolutely not. Everybody is fully aware that the number of direct loans made through the high interest rate period was very low. Consequently, we did have money available.

Basically, what we did was redirect that money. Enough direct loan money was left to handle whatever district directors and regional administrators thought would be needed in their particular areas, and we took the surplus, and moved it to the border areas.

Mr. MITCHELL. Then my constituents in Baltimore will not be faced with a statement, "We cannot give you a direct loan because it is going to the Peso Pack operation"?

Mr. TERPELUK. Absolutely not, Mr. Chairman. There is a regional administrator there, who I know very well, who is going to make sure that will not happen.

There is one other interesting thing in regard to the statistics, Mr. Chairman, that you alluded to. It goes back to Congressman Hiler's comments about where we are coming out, in terms of declines. It is interesting; it is like 50–50. We are declining at about the rate of half of what is coming in, so we are really taking creditworthy risks. We are just not throwing money out.

To go back to your point, Congressman Daub, about not getting to a situation where we create a bigger crisis than we currently have, I think even though we are being extremely sensitive, and making things work, we still have credit and quality at the top of the mind.

Mr. MITCHELL. How do you explain what appears to be a significant disparity between loan demand in San Francisco as opposed to Dallas?

I heard Congressman Hunter say that his business people there are much wiser, much sharper business persons, and are not making the applications simply because of the high rate of interest of 14 percent. How do you explain this great disparity? It is a great one, of course.

Mr. TERPELUK. Mr. Chairman, that was simple. We heard your staff was going to Texas, so we made sure. No, I am only kidding.

Mr. MITCHELL. We are also on the way to California.

Mr. TERPELUK. We will go right there right away. But to be honest with you, in thinking over all this material, this was a paramount question of mine, and it was raised.

Also, I think it comes down to a number of reasons. First of all, Mr. Lopez and the Texas approach was a good 3 weeks ahead of anything that happened in California.

There is also a lot of intergovernmental involvement there on the State level with the Governor, who hyped up the program to a point where the activity was a lot greater. I also think that the circuit-riding, Mr. Lopez can comment on, to the degree it took place in Texas, probably has a great deal to do with the successes going on down there.

I would like to think that the California figures, which are of concern, are going to change within the next week or two.

Mr. MITCHELL. That raises a very serious problem, then, does it not, if, indeed, the California area decides to emulate the Texas area, I would assume you would get at least a comparable number of applications for loans there as so far in Texas. Then you run up against the wall of having your direct loan money run out because

it is indicated that you have got just enough in the pipeline. How will you solve that one?

You have just enough direct loan money for the applications in the pipeline?

Mr. TERPELUK. We have anticipated that problem in addition to budget problems at issue with the program and Mr. Sanders has met with the White House and met with the Deputy Directors of the OMB on the issue. I believe the final meeting will be tomorrow or Friday, trying to work out a safety valve if either of these two situations come up. The California and increased loan activity or just a general budget problem of not having any money available.

Let me say, Mr. Chairman, the reception we have had so far with those people has been favorable because I don't think there is any question what we are doing—if you go by statistics, and I hate to do that, at this time—we are doing some meaningful things.

Mr. MITCHELL. The crisis is of enormous proportion and consequence to us.

Mr. TERPELUK. No question.

Mr. DAUB. Also, to point out that this may, to some extent, depending on what is in the continuing resolution—I understand that level is $120 million for at least a couple of days or something.

Mr. MITCHELL. Eighty-five million dollars.

Mr. DAUB. Eighty-five million dollars for the period to December 15. So that, at least, we are sure of this current relationship as California's loan applications may come in. I assume you have looked at that and feel you are adequately funded?

Mr. TERPELUK. Right now.

Mr. DAUB. Let me ask Mr. Lopez to tell us a little bit about what else you are doing besides loaning money to assist the businesses and maybe share your success with California and other border SBA activities.

Mr. LOPEZ. Thank you, Mr. Daub.

The first point that concerned me as soon as Congressman White got here to address your point is the fact that he said El Paso was being hardnosed.

I wanted to point out that we had 176 inquiries in El Paso. We have only declined one application in El Paso. We have approved 3 and we have 14 pending. We have also deferred 13 loans, and I think that another very key tool that we have in our portfolio is the issue of deferments.

Mr. DAUB. Let me add to the record, Mr. Chairman.

Mr. MITCHELL. Would you yield to me for a moment?

Mr. DAUB. Sure.

Mr. MITCHELL. Under the deferment process, how much authority do you have to act independently in deferring?

Mr. LOPEZ. In checking with the financial and investment people, we have plenty of latitude. In fact, we have done to date 170 deferrals in my region alone. The number of new loans deferred have been 35, so a lot of the work has been with existing SBA borrowers, whom we have tried to focus on initially, and the new borrowers that come in.

Mr. DAUB. Do you have a directive or letter from the administrator to your office, for example, that in fact says in writing that the

so-called peso crisis can be justification for deferment of payments, extensions, and possible refinancing of present loans?

Mr. DAUB. Does the committee have that letter?

Mr. MITCHELL. We have it.

Mr. DAUB. Mr. Lopez, go right ahead.

Mr. LOPEZ. So in this vein, some of the other points that really sort of talk about the servicing issue when you are talking about what are the ultimate needs of these businessmen, and I realize that many folks have different opinions.

We have in the area of counseling, for example, had a total of 982 counseling cases, and that includes typically those that we do through our Management Assistance Division. We do this through seminars and through working with some of the universities in the area of the valley, and also through our Small Business Institute program, where again we try to marry or match the needs of a particular small businessman, say, in the case of those having to develop a new business plan or a new marketing plan, because hopefully, when you start talking about the light at the end of the tunnel, there clearly are some strategic questions that small businessmen have to answer for themselves as to what they are going to do over the long term.

The loans, yes, they provide immediate relief, but the counseling assistance that we can provide through SCORE, through the universities, through our Management Assistance Division, hopefully really are at least partially a long-term solution to this situation.

Mr. DAUB. Are your staffing levels across the border States adequate right now to manage to give this additional outreach?

Mr. LOPEZ. We believe so, Mr. Chairman. I am very proud of the fact that our folks have been working until 8:30 at night on overtime, and working on Saturdays. We have done the circuit rides. We have been doing just the loan activity over a 15-day turnaround on our loans, and the esprit de corps and morale is very high.

Mr. DAUB. You aren't waiting for them to come to you. You are out with chamber of commerce and Optimist Club talks, and going to shopping malls, getting business associations of retailers to tell them that you are there and that you can help?

Mr. LOPEZ. Yes, sir.

We are also not doing it at the expense of our "regular business." Of course, in the valley this is a major issue at the moment and it is a matter of priority. But during the same period over the last 25 days we have also done 14 regular loans. In other words, not peso-related. So it really has not been a major problem for us to handle with our existing staff.

Mr. DAUB. You are right there on the firing line. Could I ask for an impression on your part?

Do you have a number of staffers who are bilingual, who speak Spanish as well?

Mr. LOPEZ. Yes.

Mr. DAUB. Do you speak Spanish?

Mr. LOPEZ. Yes.

Mr. DAUB. What are the Mexican people's concerns? They have to buy things from our businesses and us vice versa. There is a border, but there is a geography that over the years has developed an exchange of paper, pencils, paper clips, things that businesses

need, ingredients for restaurant supplies. What do they say about this circumstance right now?

Mr. LOPEZ. That is a good question. It points out a difference; taking, for example, El Paso and Harlingen.

El Paso, with all due respect to Congressman White, appears to have a greater industrial base; military installations are there. The retail trade is on the Mexican side. We believe that the folks being hurt in El Paso, one of the reasons why our loan demand is not that great in that area is because the Mexican business people are being hit hard. In Harlingen the situation is reversed. You see a lot of folks coming from Mexico to that area to shop in the malls, and that is where the problem is particularly acute.

In New Mexico, I only think we have had one loan. Almost no activity whatsoever. Again, it is a situation where the economy in New Mexico is more independent from Mexico as is El Paso.

Mr. DAUB. Thank you, Mr. Chairman.

Mr. MITCHELL. One last question—how would you have handled the crisis had there been no direct loan money?

Mr. LOPEZ. Primarily, Mr. Chairman, we would have worked with the deferments, which was our primary emphasis, and secondarily, working through our banks. We have excellent relations with our banks. We have 80 banks as part of our certified lending group.

Mr. MITCHELL. Of the loans 90 percent have been direct. Wouldn't that suggest a reluctance on the part of the banks in light of the total situation?

Mr. LOPEZ. Smart business people. If it is cheaper to get a direct loan than to get a guaranteed loan, you are going to go for the cheaper loan, Mr. Chairman. I consider that acute.

Mr. MITCHELL. I would, but I have to weigh that against what has historically been a reluctance on the part of banks to participate in the same loan program.

It has improved somewhat, but banks are very cautious institutions. I throw that in only to hope that SBA will rethink its position on direct loan money also.

Mr. TERPELUK. Mr. Chairman, as a person who comes from the part of the country where you come from and having the same views which you do concerning the conservative nature, sometimes too conservative nature of the banks, especially in the East, I must say, having lived through the crisis in putting the package together, that the actions of the banks, both in Texas and particularly in California, was commendable. They just dropped everything they were doing basically because they wanted to take part and sought to take part in this program. The Bank of America in particular.

Mr. MITCHELL. Yes, I know that.

Mr. TERPELUK. I would hope that the same thing would happen on the east coast if we are ever faced with the same situation.

Mr. MITCHELL. East coast bankers are strange people.

Thank you very much, gentlemen, for being with us this morning.

[Whereupon, at 11:10 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

# EFFECT ON SMALL BUSINESSES OF THE MEXICAN PESO DEVALUATIONS AND ASSOCIATED EXCHANGE AND BANKING RESTRICTIONS

MONDAY, NOVEMBER 8, 1982

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

*San Diego, Calif.*

The subcommittee met, pursuant to notice, at 9 a.m., in room 358, County Administration Center, 1600 Pacific Highway, San Diego, Calif., the Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

## OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Good morning. This hearing will now come to order.

The Committee on Small Business begins its second hearing on the effects on American small businesses of the recent Mexican peso devaluations and associated exchange and banking restrictions.

The U.S. border with Mexico is some 1,800 miles in length, and the Mexican communities on it have several million residents. These Mexican communities, being relatively isolated from central Mexico with respect to the delivery of many goods, have, over the years, developed a substantial and mutually beneficial trade with American businesses. In addition to retailing and wholesaling, this trade extends to services and manufacturing, and it is vital to the economic health of many American communities on or near the border.

The importance of this trading relationship has been underscored by the recent difficulties which the Mexican economy is experiencing. In February, the Mexican peso was devalued by 50 percent; and in August a new system of dual exchange rates was established, with a preferential rate of 50 pesos to the dollar for paying interest on foreign debts and importing certain vital goods, and an official rate of 70 pesos to the dollar for other commerce.

In September, the Mexican Government nationalized its banks and announced a general plan of exchange controls designed to block the flight of hard currency from the country. As a result, it became extremely difficult for Mexicans to obtain dollars to buy American goods or to pay accounts receivable at merchants in the United States.

Also, the official exchange rate of 70 pesos to the dollar has fallen far below the open market rate at money exchange houses which have proliferated in American border communities, encouraging widespread evasion of Mexican currency exchange restrictions.

In response to this situation, the Mexican Government recently authorized limited currency exchange at floating rates in border areas. As a result, since these operations commenced last week, there are three different exchange rates legal within Mexico: the 50-to-1 preferential rate, the 70-to-1 official rate, and the floating rate for limited use in certain border areas, now approximately 120 to 1.

Many factors have combined to severely affect American small businesses in border areas, including the reduced buying power of Mexicans due to the peso devaluation; their inability to obtain dollars to purchase American goods or pay accounts receivable in the United States; the inability of business owners or consumers to exchange currency in a stable, reliable, and sanctioned manner; the disruption of normal international banking channels; and the confusing and ever-changing regulations on currency and exchange restrictions.

In mid-September, I instructed the committee's staff to examine the effects of the peso devaluation on small businesses along the Mexican-American border. After visiting Texas border communities from Brownsville to El Paso, and meeting with many local public officials, bankers and small business owners, the staff reported on the seriousness of the problem, and the committee held its first hearing in Washington, D.C., on September 29.

At that hearing, we heard from Members of Congress representing affected border areas and of the efforts of a task force organized by those Members. Unfortunately, the administration has thus far been unwilling or unable to respond to these efforts, and to date we on this committee do not know what, if anything, it intends to do to help normalize banking and exchange conditions.

The committee also heard testimony from the Small Business Administration concerning its efforts to help affected small businesses, including its so-called peso-pack program through which financial assistance can be provided to firms experiencing working capital deficiencies due to this problem.

I think we have to be absolutely frank. The SBA has billed this as a special program, but it really isn't. The peso-pack loans are virtually identical to SBA's regular business loans and loan guarantees, and the oft-quoted figure of $200 million in available loan funds is solely drawn from loan guarantee and direct loan authority in the agency's regular business loan program, unused because of the recession.

Direct peso-pack loans are available at a 14½-percent interest rate, and the administration has informed the committee that it believes this rate is adequate and that it will not use its discretionary authority to lower that rate, as is provided for in section 7(a)(4) of the Small Business Act.

We will continue to importune the administration and the SBA. In my opinion, the 14½-percent rate is prohibitive.

The committee has before it legislation to provide low-interest emergency loans to small businesses suffering economic injury due to the peso devaluation. These bills—H.R. 7022, authored by Representative de la Garza from Texas; H.R. 7070, authored by Representative Udall from Arizona, and H.R. 7160, authored by Representative Edwards from California—would reinstate SBA's old economic dislocation loan program, which was originally enacted in 1977 to help businesses affected by the 1976 peso devaluation.

[See page 4, for the bills referred to above.]

This program was repealed at the administration's request as part of the Omnibus Budget Reconciliation Act of 1981; and, unfortunately, the administration has informed the committee of its opposition to legislation designed to reestablish it. Given this opposition, there is very little likelihood that we can secure passage of a new economic dislocation loan program in this 97th Congress.

Despite the difficulty we have encountered in attempting to provide low-interest financial assistance to small businesses needing such help due to the peso devaluation, I believe it is important for the committee to continue to lend its support for other efforts to normalize banking and exchange conditions between the United States and Mexico.

It is important for us to widen the circle of those in Washington who understand the dimensions of this problem and its effect on the small business community, and the committee is continuing its efforts to develop information which will be useful in this regard.

After our first hearing in Washington, I instructed the staff to extend its survey to border communities in California, and because we were unable to hear from local public officials and affected small business owners at the Washington hearing—we did hear there was a significant disparity between the loans being made in the Texas area and the loans being made in the California area—the committee scheduled this, our second, hearing on the peso devaluation's effects, in order to hear from witnesses with first-hand knowledge of the problem.

This morning, we will hear from public officials and witnesses with specialized expertise on this subject, and, this afternoon, beginning at 2 p.m., we will hear from business owners from Calexico, El Centro, San Ysidro, and National City, Calif.

I am very pleased to have with us this morning representatives from both the executive and legislative branches of the State of California and from the city of San Diego.

I want to publicly thank the staff for the work it has done in putting this hearing together. Some people think you go into a district and suddenly a hearing develops. It does not work like that. You have to go out and do a lot of digging and talking and planning to put on an effective hearing.

In addition, I want to pay special thanks to Mr. George Chandler, who is the district director of the SBA here in this area. I understand you have been most helpful to my staff, and we are very, very grateful.

I would like to close out by indicating we certainly welcome all new Members of the Congress who will be joining us next year, but there is one in particular who is down the hall, Mr. Bates, who is a

stalwart Democrat, who came through, and will be joining us in Washington.

With that, I would like to hear from our first witness this morning, Mr. Robert Ham, who is with the Committee on Economic Development and Planning for the State of California.

**TESTIMONY OF ROBERT E. HAM, CHIEF CONSULTANT, ASSEMBLY COMMITTEE ON ECONOMIC DEVELOPMENT AND PLANNING, CALIFORNIA STATE LEGISLATURE**

Mr. HAM. Thank you. Good morning, Mr. Chairman.

My name is Robert E. Ham. I am the chief consultant to the Assembly Committee on Economic Development and Planning for the California State Legislature.

My committee chairman, Mr. Rogers, was unable to attend this hearing this morning, and he asked me to send his apologies and to appear on his behalf.

I think it is very appropriate that the House Small Business Committee takes an interest in this rather unique regional problem, since it has been our committee's experience that the businesses which have been most affected by this crisis fall within the definition of small businesses.

Last September 13, our committee met in this very location in an attempt to gather facts as to the extent of the problem, and to identify any measures which the State legislature might take to lend assistance to the affected businesses.

I have discussed some of our findings at length with one of your staff, Mr. Joe Sobota, and he suggested that it would be helpful if we shared some of this information with this committee.

At our hearing, we received testimony from the State agencies which deal with economic development and employment, several consultants who have been working with the businesses in the region, business owners from Calexico and San Ysidro, San Diego State University, and the SBA. Several of these same individuals or representatives of the same groups are scheduled to speak today, so I will not go into great detail about what they told us in September, as they will undoubtedly have more recent information to present to your committee at this time.

There were five members of our committee present at our September hearing, and after having discussed this problem with several of them since the hearing, I think their greatest frustration seems to be over the fact that there appears to be very little that we at the State government level can do to help alleviate the problem for these affected businessmen and women.

In the testimony we received, there seemed to be a general consensus that, for the most part, the SBA loan program would be of little value to most of the businesses without some assurances that their customers, the Mexican nationals, would soon be returning with some semblance of their predevaluation purchasing power.

The problem is most severe in Calexico and San Ysidro, the communities immediately adjacent to the border, although there are indications that many other California industries might soon feel the effects of the problem.

Our State's important tourism industry, which registered a $700-million positive balance of trade in tourism with Mexico in 1981, will surely be affected.

Our State's agricultural industry exported some $350 million worth of products to Mexico in 1981, and we have no estimates yet as to how this industry will be impacted as a result of the various import controls which have been imposed by Mexico in conjunction with the devaluation.

In fact, California's total trade equation with Mexico in 1981 for all commodities, excluding tourism, was about $2.5 billion in exports versus $1 billion in imports. It is still unclear how much this trade balance will be altered by Mexico's recent actions.

I mentioned earlier that there is a feeling of frustration at the State level over the relative inability of the State to provide any really meaningful immediate relief to the problems. Our most acute problems are, of course, the unemployment caused by the dropoff in business activity, the business closures, the reduced sales tax revenues when this State's budget may already be out of balance, and the possible increase in unauthorized immigration and the resultant costs.

In past devaluations, our experience has been that there was a dropoff in economic activity for a short period of about 6 months or so, but eventually the level of business activity returned to near-normal levels.

The situation this time appears to be quite different because the devaluation problem has been exacerbated by the extraordinary measures which the Mexican Government has taken to control the flow of dollars across the border.

These steps have caused more Mexicans to buy their goods and services on the Mexican side of the border, even though some may still prefer to buy in the United States and are able to afford to.

These additional monetary controls may considerably lengthen the period of recovery from our past experience of 6 months or so, to 18 to 24 months, or perhaps much longer.

There are indications that the official value of the peso at the 70-to-1 ratio is still way out of balance with its real value, and there may yet be another devaluation as early as this month. This, of course, will further prolong the problem, particularly if the Mexican Government imposes additional monetary controls.

Thus, the situation is more analogous to a major plant closure with respect to the longer term impact on the local economy. California passed legislation this year to respond to major plant closures, and some of the provisions of that program may be used in this situation.

One response which is being implemented is the use of an interagency task force called the California Economic Adjustment Team.

The team is capable of offering job service assistance to laid-off employees through our Employment Development Department services, retraining programs, and longer range programs of attracting new employers to the region to help diversify the economies of the two affected communities so as to be less dependent upon spending by Mexican nationals.

These programs still do little to assist the small businesses which are very likely to fail unless their business improves.

The merchants who testified before the committee suggested that their problem might be alleviated somewhat if there was some way to take pesos from their Mexican customers and exchange them for dollars at the end of each day.

At the time, the banks were no longer accepting peso deposits, so the merchants were unwilling to accept pesos for which there might be no way of converting to dollars.

Since our hearing, over 150 "casas de cambios," or money-changing establishments, have sprung up to service the needs of those pesos which are seeking dollars and vice versa.

In fact, the streets of Calexico and San Ysidro have become somewhat reminiscent of the gasoline price war days of the late 1960's.

Each changing house has a large sign out front broadcasting the current price in pesos that merchant is paying for dollars. Often, these signs would change a couple of times a day as each establishment tried to match the price being posted down the street.

Last Wednesday, the Mexican Government announced a new program wherein they will authorize similar money exchanges at above the 70-to-1 rate on the Mexican side of the border in an attempt to attract those badly needed dollars to their side of the border.

The merchants in Calexico have also attempted to stabilize the local fluctuation of the peso exchange rate by creating their own peso exchange as a nonprofit venture.

I am sure that the representatives from Calexico who will be speaking later today will bring you up to date on the progress and initial results of this program.

I have spoken today of some of the "band-aid" solutions which we have attempted to implement at the State and local levels. Any real solution must be accomplished through an interaction between the Federal Governments of the United States and Mexico.

The fact is that except for a fence dividing our cities, there are no physical boundaries between our two countries in this region. There is only a politically drawn line marked by a wire mesh fence which divides these communities. The economies of these border cities are so completely intertwined that any disruption on one side of the fence necessarily causes an adverse economic impact on the other side.

The Mexican leaders are just now seeing how these attempts to impose controls which were designed to freeze out American competition in the border area are causing them troubles at home. Many of those being laid off in San Ysidro and Calexico are Mexican nationals and residents who formerly brought dollars into Mexico.

The announcement last week that Mexico is now going to establish their own casas de cambios is another realization on their part that their monetary controls are backfiring in the border region.

One of the hopes of the Government, when they announced the devaluation, was that Mexico's all-important tourism industry would boom as Americans would suddenly converge on Mexico in an attempt to buy exceptional bargains with their dollars. Instead,

Mexican airlines are having to cancel flights because no one is flying.

American tourists who might have been interested in seeking a bargain vacation, are driven away from Mexico because of the confusing and changing status of the new currency regulations. In short, the controls have produced almost exactly the opposite reaction that the Mexican Government had hoped for.

I am aware that there are some very delicate negotiations going on now between our governments and the international financial community. For the sake of our small business merchants along the border, we can only hope that in the course of these negotiations involving billions of dollars, there is some recognition of the microeconomies along the border region, and the special needs to relax some of the controls for the benefit of both countries.

That concludes my testimony. Our committee is preparing a report based upon the information received at our hearing, and we will submit it later as an addendum to the record of this hearing.

Mr. MITCHELL. Thank you very much. We will look forward to receiving that.

I do have some questions. But, in my haste to proceed on time, I neglected to recognize Congressman Siljander—a very valued member of the House Small Business Committee—for an opening statement. I do apologize.

Mr. SILJANDER. Why don't we just carry on, Mr. Chairman, with the testimony, and I will forgo an opening statement now.

Mr. MITCHELL. I gathered from your testimony, Mr. Ham, that the problem of the small business people in the affected areas is not so much that they cannot get loans from SBA to carry them through, but rather that they will eventually have Mexican customers to permit them to stay in place. Is that right?

Mr. HAM. That is exactly correct. You can borrow yourself right into the poorhouse if you are not careful. If your business is not going to improve sooner or later, you have just taken on a lot more debt that you are still not going to be able to repay.

Mr. MITCHELL. You focused in on two areas of Calexico and San Ysidro. Approximately how many small businesses are in those two areas that have been affected by the devaluation?

Mr. HAM. I don't have those numbers. I think the chamber of both of those cities will have those numbers. They will also tell you virtually every business in both of those communities has been affected.

Mr. MITCHELL. Would you be in a position to tell the committee to date how many businesses in those two communities have failed, or should I wait for testimony from the officials from those areas?

Mr. HAM. It would probably be more up to date if we got the information from each of the affected cities.

Mr. MITCHELL. All right. I share your feeling of frustration.

Our problem is that we have an SBA structure in place that can and should help. But obviously I can be sympathetic with the attitudes of the small business people—why should they go further in debt unless they have some reasonable assurance that their customers will be returning?

I also share your frustration that it is primarily, I think, up to the House Banking, Finance and Urban Affairs Committee to be

working with the Department of the Treasury and other agencies of the Government to deal with this problem.

Our focus is really to try to bring help whenever we could to the small businesses. But we certainly are not divorcing ourselves from the larger aspects of the dialog between the Department of the Treasury and the Banking, Finance and Urban Affairs Committee.

Mr. Siljander?

Mr. SILJANDER. A couple of questions.

I come from Michigan, far away from the borders of Mexico. I guess the question that some people would ask from other States is, why is this our concern? You have received the benefits, both past and present, of bordering Mexico—tourism and such.

I guess one of the questions I have is, why do you feel it is a national problem, not a State issue? As you stated, there have been attempts through your previous legislation to help with job placement and attempts by merchants to create their own peso exchange.

Why would it be a national issue as opposed to just a State issue or a local issue?

Mr. HAM. I am sure, being from Michigan, you are aware of the plant closure phenomenon and some of the retraining efforts and the attempts to bring in new businesses that have to happen. But, in this case, the reason we are appealing for some national recognition, is because we are talking about something that is caused externally. It is part of some larger negotiations going on between our Department of the Treasury and our Department of State with Mexico. I think there is a significant segment of the business community, not just in California, but all along the border, that should be remembered as part of the very delicate negotiations.

We have some economies that are just absolutely dependent upon one another.

Mr. SILJANDER. What you are saying, essentially, is you are requesting the Federal Government to intervene with negotiations.

Mr. HAM. Yes, we are requesting when this committee goes back to Washington, that you pass on perhaps to the Treasury and the State Department negotiators the fact that there is this microeconomy, when they are dealing with the macroscale, $3½ billion in loan guarantees and rewritten notes, and so on, that some of the controls that are placed, perhaps should be relaxed along the border region, so that the economies can flow once again.

Mr. SILJANDER. So, beyond that, you wouldn't have any specific needs that we could address federally, besides negotiations and relaxation of border controls.

Mr. HAM. I think those are certainly the key areas that we should be zeroing in on.

Mr. SILJANDER. Two other quick questions, if I may. You mentioned in your testimony about heavy unemployment as a result. And, of course, being, as you mentioned, from Michigan, we have an import problem with Japanese automobiles. But what type of unemployment are you referring to? My district has 17½ percent unemployment. I just wondered what would you consider heavy unemployment as a result of this?

Mr. HAM. The city of Calexico, and I don't know if the Department of Employment Development is going to be here today, but they were anticipating it could approach 50 percent in Calexico.

It is a pretty severe problem, although there are some things with those numbers that you should be aware of: Some of the unemployed are actually green-card nationals of Mexico.

Mr. MITCHELL. I am sorry. I didn't hear that.

Mr. HAM. Some of the people who are allowed to claim unemployment under California law are green-card nationals, working immigrants from Mexico.

Mr. SILJANDER. Besides California's laws, what difference in unemployment would there be because of the situation you are referring to today. I mean, is there now 40 percent unemployment, or 45? Is there any way you could provide me with realistic data dealing with numbers or percents of unemployment as a result of the border problems and the devaluation of the peso? Fifty percent sounds devastating. I have a town that has 60 percent unemployment in my district. That sounds terrible. But it has been that way for several years.

Mr. HAM. In Calexico, where it is much easier for our Employment Development Department to measure, because we have a separate office there, I believe the rate that I was given for residents living in the United States, in Calexico, was about 39 percent. That increased substantially since the second devaluation. I believe about 2 weeks after the devaluation, they received 300 new requests for unemployment assistance, employees directly laid off from retail stores.

Mr. SILJANDER. You are saying there are about 300 more people unemployed?

Mr. HAM. Substantially more than that.

Mr. SILJANDER. What was Calexico's unemployment last year?

Mr. HAM. I would have to go back and get that information. I would be happy to provide it to the committee at a later time.

Mr. SILJANDER. I think it is important for us to try to understand more of the human impact or human suffering it is causing. Maybe we will learn that as the hearing progresses on.

Mr. HAM. Mr. Siljander, I think you will find that some of the merchants that will speak this afternoon can tell you—some of the larger stores—where they have gone from 300 employees down to a relative handful—these will be specific cases.

I think that may be more informative for you. But our Employment Development Department is trying to sort out exactly—there are a lot of other problems in the Imperial Valley with unemployment—how much of it is caused by the devaluation and monetary-control-related. Again, I will be happy, when the department does come up with some solid numbers, to provide you with that information.

Mr. MITCHELL. Might I just suggest that the six panels we will hear from this afternoon are made up of officials and business persons from Calexico and from San Ysidro.

So we should get a lot more information at that point.

Mr. SILJANDER. Some of my questions may be redundant to each group—but just to get some sort of feeling, not being from this area.

One last question: Where do the pesos go? How do the collection houses dispose of the pesos, if Mexico is more after dollars rather than pesos? If I exchange my dollars for pesos, or exchange my pesos for dollars, what do they do with the pesos?

Mr. HAM. I think you may be able to get a better answer this afternoon. As I understand what is happening, the Mexican customers, the Mexican nationals, are coming up and spending pesos in the American stores, and the American merchants then sell them to these changing houses at probably about 125 pesos per dollar right now. The changing houses then sell at 120 to 1 to a tourist or somebody who is on his way to Mexico.

So, the American tourist now is not bringing dollars into Mexico, but pesos into Mexico, which is exactly the opposite of what the Mexican Government had hoped to achieve with some of these things.

Mr. SILJANDER. Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much. If you can stick around with us a little longer this morning, we might have some additional questions.

Mr. HAM. I intend to be here until about 4:30, Mr. Chairman.

Mr. MITCHELL. Thank you very much.

Our next witness is Mr. Larry Piper, the planning director for the Southwest Border Regional Conference in the State of California.

Mr. Piper, welcome to the hearing. Thank you for taking time out to be with us. We will be glad to receive your testimony.

Do we have written copies of your testimony?

Mr. PIPER. I am afraid, Mr. Chairman, due to the suddenness of my appearance, I did not have time to have copies made. I will have them made before the end of the day, however.

Mr. MITCHELL. We would appreciate it. Because we would want all of this to be part of the official record.

Please proceed.

## TESTIMONY OF LARRY PIPER, PLANNING DIRECTOR, SOUTHWEST BORDER REGIONAL CONFERENCE, STATE OF CALIFORNIA, SAN DIEGO, CALIF.

Mr. PIPER. Mr. Chairman and members of the subcommittee, my name is Larry Piper. I am the planning director for the Southwest Border Regional Conference. I am here today representing not only that agency but also Lynn Schenk's office, which is the Business, Transportation and Housing Agency of the State of California.

Our executive director, Richard Juarez, was scheduled to give this report, but was unable to come here today for personal reasons, for which he sends his apologies.

Speaking for the State agency most directly responsible for economic and business development in the California border region, I would first like to say that we believe the current economic situation should be viewed with the same attitude of mutual understanding and cooperation that was expressed by the Governors of the four United States border States and six Mexican border States when they met in Tijuana this last September to examine these

same economic problems during the Third Binational Border Governors' Conference.

In their private discussions on the current economic situation, the 10 border Governors concluded the following: First, that all evidence indicates that the massive economic problems we face in the border area are of a serious and long-term nature and that all steps toward resolution should be developed accordingly.

Second, that the problem has reached critical proportions for small businesses and local governments in the immediate border area and that some form of combined State and Federal assistance must be developed immediately, and, finally, that any controls or regulations which are established to bolster or protect the economy on one side of the border must consider the spillover effects to the other side and gradually phase in such changes so as to provide time for the neighboring economy to adjust.

In order to better understand and deal with these problems, the Governors resolved at their meeting to establish a special 10-State committee to study the regionwide effects of recent monetary and trade regulations and develop recommendations for both Federal and State responses.

I would like to provide a brief analysis of the nature and extent of the economic disruption that is occurring in California's border communities as a result of the devaluation of the Mexican peso and subsequent currency restrictions.

With respect to the problems of small business in California, we have identified three specific and immediate impacts on which I would like to comment: First, declines in retail and wholesale trade in the California border communities; second, declines in Mexican tourism in the border counties, and, lastly, increased unemployment in Imperial and San Diego Counties.

Estimates vary widely as to the degree to which retail sales in Imperial and San Diego Counties depend upon purchases of Mexican nationals. The Wall Street Journal asserted that over 75 percent of retail sales in Calexico were based on Mexican purchases.

In a 1978 study, we found that 7.5 percent of all sales in San Diego County were by Mexican nationals, which results in roughly $500 million in sales annually.

After earlier devaluations, retail sales dropped between 50 and 60 percent for periods of time before resuming growth; it seems likely that a drop of similar magnitude will occur this time as well. In addition, the border counties face declines in sales tax revenue, increased emigration of workers seeking jobs, and declines in their export sales to Mexico.

California has held a positive tourism trade balance with Mexico in recent years: For 1981 Mexican travelers to California spent about $1 billion, while California travelers to Mexico spent about $314 million. This positive balance will almost certainly be reduced by the devaluation.

Indications of the devaluation's impact on tourism can already be seen in the dramatic decrease in the number of Mexican visitors to San Diego's tourist attractions and shopping centers.

Even the San Diego Trolley, which had been experiencing steady growth in ridership prior to the devaluation, suffered a loss of over

3,000 daily customers, or over 20 percent of its daily patronage within 1 month of the peso devaluation in August.

This equates to a daily loss of over $60,000 in retail sales just from the decrease in Mexican visitors riding the trolley, and the trolley accounts for only a fraction of the 22 percent of Mexican visitors who do not enter the United States by car.

Using 1978 figures, San Diego State University estimates that about 1.8 percent of San Diego employment was tied directly to the Tijuana market, while 7.2 percent of Imperial County employment was tied directly to the Mexicali market. This translates to over 13,000 jobs in San Diego County and nearly 3,000 in Imperial County.

Because the unemployment rate in Imperial County is over 30 percent already, the devaluation is quite serious, indeed. The unemployment problem, of course, will be compounded in these communities such as Calexico and San Ysidro, which are even more dependent upon purchases of Mexican nationals. Estimates by city officials indicate that unemployment in these areas has reached 50 percent, and business failures are at an alltime high.

Previous devaluations of the peso have been followed by a fairly consistent economic betterment. The cycle usually includes a 50-percent drop in business sales immediately followed by slow recovery for roughly 6 months, at which time the business volume has generally reached 90 percent of the predevaluation levels.

Although the current peso devaluation cycle may mirror earlier cycles, there is sufficient evidence to indicate that this cycle will last longer and will be more severe. Mexico's attempt to control dollars is certainly a more serious situation this time, and Mexican officials have said that they are determined to stop the flow of all dollars across the border in order, among other things, to force Mexicans to buy their supplies on the Mexican side of the border. If this happens, the problem will be more analogous to a plant closing.

If this turns out to be the case, we may be able to respond through the California Economic Adjustment Team, which is an interagency task force established by the government and now codified through S. 1823 by Senator Greene.

Just how well the economic adjustment team could respond to the peso devaluation remains to be seen, because we are not dealing with the closure of a single major plant but rather with many scattered smaller businesses; however, rehiring programs and long-term economic development assistance funds to help attract new employment to the area are available, and, if desired by the local communities, aid to help diversify the basic economy and reduce the dependence upon spending by Mexican nationals will be provided.

In order to do this, we need to help the local communities put together economic development plans based on their skills and resources, to help attract new manufacturing firms or help existing manufacturing firms to expand, to develop industrial parks and other amenities necessary to attract firms and jobs.

In addition, through our office of tourism, we will continue to explore methods in which tourism to this area can be increased. You may have noted, however, that this type of economic development

assistance is long term in nature, and it represents an investment which involves a significant amount of time.

It is an investment which is worthwhile but which does not address the short-to-medium-term problems that are being experienced in Imperial and San Diego Counties.

It is for this reason that Governor Brown sent a letter to President Reagan, asking for a new economic disaster area program. As you are aware, the Small Business Administration has announced that it has $200 million available; however, these loans will be under its 7(a) program rather than through an emergency program. As a result, these will not be the low-interest loans needed, but rather will carry an interest rate of approximately 14½ percent.

Mr. Ham has mentioned the inadequacy of such a program and the lack of response to it.

A more appropriate response to aid the U.S. border businesses would be low-interest, working capital loans, lines of credit, and renegotiation of existing credit in order to help businesses bridge the gap.

What other steps can be taken?

While the Governor's office does not have a formal policy for the resolution of these economic issues, I would like to make some general suggestions which may contribute to today's dialog and the discussion of possible solutions.

To begin with, the Federal assistance which President Reagan has provided for the Mexican Government in the form of accelerated oil payments was an important step because it signified the strong support of the U.S. Government for Mexico during a period of economic crisis.

However, it should be recognized that the U.S.-Mexico border region shares a single, integrated economy and that as a result of this, the plight of Mexico's economy is shared by the U.S. border cities.

Federal assistance programs should, therefore, incorporate the special plight of the small businesses in the U.S. border region because they are equally important to the long-term stability of the Mexican economy.

Our research shows that when small businesses in San Ysidro or Calexico begin to fold, a negative multiplier effect comes into play which accelerates the loss of jobs and incomes throughout the primary and service industries on both sides of the border.

Second, we encourage the implementation of programs by the U.S. Treasury to pay for pesos taken in by U.S. border merchants. We hope that in time the U.S. Treasury will negotiate with the Mexican Government to accept part of the payments for oil in pesos, thus assuring a means of returning this currency.

Third, we encourage the restriction of purchases of Mexico's subsidized products and essential goods by U.S. shoppers who have taken advantage of the devaluation to create shortages of some basic goods. This restriction comes in exchange for Mexico's easing of controls on currency and shopping in U.S. border communities.

We encourage negotiations with Mexico, urging them to slowly phase in new customs regulations which affect the importation of

U.S. goods, so that local border businesses will have time to adjust and develop new markets for their goods.

The United States should establish some form of monetary controls or guidelines for currency exchange houses. This is an issue with international implications which will require the coordination of Federal, State, and local agencies to bring under control. Such an effort would be viewed favorably by the Mexican Government as a means of assisting their attempts to stabilize the peso.

In conclusion, we must face the current economic crises with the realization that this is a long-term condition which will require careful and coordinated actions by both nations to rectify.

We must respect the fact that any action we take will have an effect on Mexico, and vice versa. Because of the interlinking of our border economies, we must pay special attention to the positive and negative multiplier effects which result from the expansion and contraction of small business in the border region and the real and symbolic effect which the prosperity of the border region will have in shaping the future of United States-Mexico relations.

Thank you.

Mr. MITCHELL. Thank you, Mr. Piper.

In your testimony, you referred to a high business failure rate in one or two areas.

Could you be a little bit more precise as to what that rate is?

Mr. PIPER. Well, I cannot give you an exact percentage. I can only say that in my discussions with city managers in these areas and businessmen in those areas, that they have indicated they feel that business failures are high and unemployment is extraordinarily high.

However, I do not have concrete figures.

Mr. MITCHELL. The unemployment figure we are a little more precise on. But what I was trying to get at is if you have a business failure rate in those areas of, let's arbitrarily say, 40 percent right now as a result of the current situation, and that current situation is prolonged for another 18 to 24 months, it is quite possible you are talking about an 80 percent business failure rate.

I want to keep digging into that, because I think it is important for us to know what the precise failure rate is. There appears to be consensus, both on your part and on the part of the first witness that this is a long-term problem, quite distinct from the devaluation that occurred some years ago, where, in 6 months, the businesses were able to rebound.

We are talking possibly 18 months to 2 years if this issue is protracted.

Also, you indicated in the first part of your statement that the groups that got together, the Governors, and so forth, on both sides, agree that there ought to be some form of combined State and Federal assistance that would have to be developed. But you did not refer to what form that should take.

Am I correct in assuming that several of the issues that you recommended at the very end of your testimony might be in the form of assistance that State and Federal Governments could take?

You made four or five recommendations. Are those just yours, or do they reflect this combined group that you referred to earlier?

Mr. PIPER. No, those just reflect thinking in our office at this time. The States are developing solutions that will be submitted to the Governors at their next meeting. We hope to have more formal solutions at that time.

Mr. MITCHELL. Just one last comment: It really is not a question. One of your recommendations was to place further restrictions on U.S. purchases. It sounds good. But I always fear that an enormous problem would develop. If people can get more for less, and some restrictions are imposed, I think people will begin to try to find ways of getting around those restrictions, and then you might be dealing with a microform of lawlessness that is going to cost you in this area.

I just find it exceedingly difficult to accept the fact that by imposing those restrictions, you really help the situation. I think you simply encourage ways of getting around the restrictions.

Congressman Siljander?

Mr. SILJANDER. Yes. A couple of questions.

You mentioned control of the monetary exchange houses. What type of controls specifically do you feel would be necessary?

Mr. PIPER. Well, I think that is an issue that really needs to be looked into by the appropriate Federal agencies. We feel it is a Federal issue because we are dealing with national currencies.

We feel that the sudden rash of exchange houses that blossomed in response to this devaluation has, in effect, as was mentioned earlier, resulted in an evasion of Mexican currency controls.

Now, to what extent we can counter this by regulating the manner in which exchange houses are set up and operated, I am not sure. I just think it is something that needs to be looked into.

Certainly it is an issue that is going to continue as long as we have this wide variation of currencies.

Mr. SILJANDER. Well, not being an expert in this area, I would appreciate any suggestions you might have. If you could be more specific, for areas that could be exchanged, expanded, or implemented to help what you would consider better control of the exchange houses. Of course, elimination would cause blackmarketing.

Additionally, could you please clarify, since I don't have your testimony in writing, the unemployment statistics you were mentioning? Again, this alludes to a similar question I asked Mr. Ham.

I wonder if you could clarify that.

Mr. PIPER. We are probably operating from the same statistics. We understand especially in Imperial County that current unemployment rates range approximately 30 percent in the areas away from the border, and that in the border communities we have unemployment approximating 50 percent.

Now, these kinds of figures are difficult to get accurate measurements of, as you mentioned earlier. However, we feel the reliable city officials that give us these estimates are pretty familiar with the situation.

Mr. SILJANDER. What difference in the unemployment has this particular situation caused in the Imperial County area, as well as the border areas, in comparison?

Mr. PIPER. What particular effects? Well, I think, as I mentioned earlier, we have this multiplier effect of small businesses going under that specifically had most of their trade—70 or 80 percent of

their trade—with Mexican nationals. When they go under, we have further suppliers and service industries going under with them.

Part of the problem is, it has just been too recent to get really substantial figures to give you at this time.

Mr. MITCHELL. Would the gentleman yield?

Mr. SILJANDER. Certainly.

Mr. MITCHELL. I was making notes during your testimony. I think you pointed out that in the San Diego area, as a direct result of the most recent peso devaluation, you are talking about a 1.8-percent increase in unemployment, which I think you said translated out to about 13,000 people.

Mr. PIPER. What I indicated was that through an input/output study, we can show that there is directly related 1.8 percent of San Diego businesses to the Mexican economy. I didn't indicate that all those people were out of work as a result of the devaluation, but just that there is that range of direct and measurable effect.

Mr. MITCHELL. Would that same premise hold for Imperial County? You said roughly 7.2 percent, which roughly translates out, according to my understanding of your testimony, at approximately 3,000 as an unemployment figure.

Mr. PIPER. There is that potential. There are that many people that are directly dependent on Mexico.

Mr. MITCHELL. Thank you.

Mr. SILJANDER. The 1.8 percent—for clarification—you said the San Diego area was tied to Tijuana, specifically?

Mr. PIPER. Yes.

Mr. SILJANDER. I am happy to hear, after the question I asked Mr. Ham previously, that there is a regional-State effort being made.

So, obviously there must be something the States and local communities, a cooperative effort amongst a conglomeration of States and local communities, that can be done to help address the problem.

I am not suggesting we should pass the buck. But, then again, I sense there is more of a regional concern than possibly a national concern. But what I would like to do is hear and understand as best I can your concern here, and to see if there is anything from a logical perspective we can do on the Federal level.

I am pleased to see this 10-State regional committee. I think it is a fine idea that will produce results.

Mr. PIPER. We would be happy to forward whatever results the committee comes up with.

Mr. SILJANDER. Thank you.

Mr. MITCHELL. Thank you.

Thank you very much for being here.

Our next witness is Councilman Ed Struiksma. Thank you very much for being with us this morning, Mr. Councilman.

My nephew is a city councilman in the city of Baltimore, and I know what his schedule is. So I know this must be doing severe damage to your schedule today. But we are grateful that you take time to be with us.

## TESTIMONY OF ED STRUIKSMA, COUNCILMAN, FIFTH DISTRICT, CITY OF SAN DIEGO, CALIF.

Mr. STRUIKSMA. Thank you, Mr. Chairman. I am Ed Struiksma, a councilman with the city of San Diego.

I want to thank you for the opportunity to appear before you today as you conduct factfinding hearings on the effect of the peso devaluation here in the San Diego region.

Your responsiveness in seeking information on the serious circumstances now existing in our community and your willingness to proceed forward searching for assistance and solutions on behalf of our local economy is certainly welcomed.

As a city councilman for the city of San Diego, I can tell you the effects of the peso devaluation have cut deeply, not only into our area's small business community, but into medium- to large-size businesses as well that depend on a good share of their products being exported to the country of Mexico. Without any doubt, the repercussions have been strongly felt over and over again here in San Diego.

Let me give you a brief overview of significant factors I would like to bring to the attention of the committee.

First, the tourism industry—San Diego's third largest industry—has had steady gains here in our city since 1978.

I would like to discuss tourism as it specifically relates to a category identified as Mexican day visitors, an area in which we have concise data already compiled. Mexican day visitors are defined as Mexican citizens crossing the border to San Diego for non-business/employment purposes. Mexican day visitors registered gains as follows: 1979, 6,027,000 Mexican day visitors for an increase of 6.1 percent; 1980, 6,505,000 Mexican day visitors for an increase of 7.9 percent; 1981, 7,765,000 Mexican day visitors for an increase of 19.4 percent.

Then we come to 1982. The statistics show the months of decline far outweigh the months of increases, and these increases are dramatic.

Let me run through the month-by-month statistics for you: January, minus 4.4 percent; February, minus 7.1 percent; March, plus 2.5 percent; April, minus 6.2 percent; May, a major loss of 22.4 percent.

In our peak summer tourist months of June, July, and August: June showed only a 2.9-percent increase; July, only 10.3 percent increase; and August, minus 12.3 percent.

Figures just penciled in for September show a decline of 22.5 percent.

Now comparing side by side the first 9 months of 1982 with the first 9 months of 1981, we find: Spending down from $307,347,000 to $285,246,000, a decline of $22,101,000; and the total number of visitors from 5,799,000 people to 5,382,000 people, down 7.2 percent.

As is readily evident, the drops are startling and are predictably not going to improve, and will most likely worsen through the last quarter of 1982.

Another area I would like to address with specific detail is the retail business.

Using the major regional shopping area of Fashion Valley, located 18 miles north of the border as an example, sales have averaged $150 million a year. Prior to the February 5 devaluation, the merchants depended on 10 to 12 percent of that buying power to come from Mexico.

During the Christmas season, they annually project that 18 to 22 percent of their sales are to Mexican citizens. Again, the results of the peso devaluation on this group of merchants have seriously hurt their sales revenues.

As a result of the first devaluation, the rate of Mexican shoppers dropped from the normal level of 10–12 percent to 5 percent; after the second devaluation, the rate has hit a low of 1 percent of their entire business. The retailers are fearful this Christmas season will not even come close to the normal 22 percent level.

These two examples point out just how far-reaching the impact has been on tourism and retail business. And there are many more examples across the board—in real estate, goods for exportation, services, restaurants and entertainment industries—that are difficult to definitely quantify for you with the exact statistical data, but certainly they have all felt the shockwaves.

Now speaking on behalf of the city of San Diego, I would like to address what the peso devaluation means insofar as the economic impact on revenues to local government.

Before the February and August devaluations of the Mexican peso, purchases by Mexicans visiting San Diego County generated an estimated 4.6 percent of San Diego city's sales tax revenue, or about $2.4 million in 1981. This tax is the city of San Diego's largest single source of revenue. The comparable amount for fiscal year 1983 would be about $3 million. The city of San Diego's financial management department estimates that the August devaluation will reduce city sales tax revenue by about $1.4 million to $1.7 million in fiscal year 1983.

Without any doubt, individual stores in the immediate border area are being severely affected by the recent devaluation. The overall effects on citywide sales are more difficult to pinpoint because limited data exists on how much Mexicans spend and on what kinds of products at various locations in the city.

But assuming that Mexicans will be able to convert pesos to dollars—either legally or on the black market—the impact of the devaluation on Mexican purchases will be determined by the exchange rate for such transactions and by the relative price levels in the United States and Mexico. The greater the rate of inflation in Mexico, the less the devaluation will deter Mexican purchases in the United States Inflation in Mexico is currently running about 50–60 percent per year, and some observers believe it could go to 100 percent.

Overall, the city of San Diego, relying on knowledgeable observers, believes that the latest peso devaluation will reduce purchases by about 50 percent. Although this is only an educated guess, it is the best indicator we have. Assuming a margin of error of plus or minus 10 percent in this estimate, that would mean the city's sales tax revenue could decrease by 2 percent to 2.5 percent, down to $63.6 million or $63.9 million in fiscal year 1983 as a result of the peso devaluation.

Other city revenues sure to be affected by this situation are the decreases in transient occupancy tax collections as a result of less Mexican visitors staying in our hotel/motel rooms and decreases in revenues through loss of business license fees, as many businesses will fail to renew their licenses.

My comments are by no means a complete summary of the deep extent by which the area has been struck a serious blow. But it is selective information which I believe will give you a broad overview from the perspective of a local government, and add to the facts and figures necessary for you to acquire in order for you to begin your evaluation in arriving at solutions.

I know many small business people will be present here today to share their frustrations and ask for your help.

During the course of this meeting, should problem areas arise where the city of San Diego might assist, either through staff support, services, or legislative action, I want you to know I am here to help and to open the door to you at city hall.

As an elected representative, I am fully prepared to work with this committee on any areas of concern and to schedule public hearings, if necessary, for the city of San Diego to go on record to actively support any matters requiring a change in the laws.

I hope the discussions today will lead to an effort to consider reinstatement of the Federal economic disaster program and also to work toward alleviating any redtape to process low-interest loans as a matter of survival for the small business owner.

I also sincerely hope as a result of these hearings today, this committee will inform me of any measures within the city of San Diego's jurisdictional authority that may assist in improving the situation.

I understand the main thoroughfare in San Ysidro, the portion of San Diego adjacent to the border, has seen literally hundreds of temporary money exchange stands spring up overnight. A check of our police department records showed only isolated incidents of complaints, but should it be indicated that prudent regulations and enforcement would be helpful, I am prepared to draft a city ordinance in accordance with the findings of this committee.

I am also interested in any determination you might make in respect to the effects that a free trade zone may have in stimulating economic activity in our border area.

The county of San Diego and the Greater San Diego Chamber of Commerce have an evaluation in progress to survey the potential effects the free trade zone would have on our area. Any information developed by this committee today which might aid us in this undertaking would be most appreciated.

The city of San Diego may be looking at suffering long-term setbacks in our economy. The magnitude of the problems may not yet be evident. I think many of our small business owners are presently hanging on by a thread and need some indication or a clarification if any relief is forthcoming and what it will be. This will enable them to decide whether to remain and try to survive or whether they should be looking to relocation.

I wish that I could be here today to bring you answers, but instead I am afraid I have presented only problems.

In summary, I want to reiterate how important I feel your scheduling of this hearing in San Diego is to our area and that it clearly demonstrates your genuine interest in looking for solutions in this time of economic disaster. Again, I want to offer my services on behalf of the city of San Diego, and I thank you.

Mr. MITCHELL. Thank you very much for your testimony.

I am going to ask Congressman Siljander to conduct most of the questioning. I have only one question that I want to put to you.

The interest rate on the existing SBA loans is 14½ percent, and that is prohibitive. I am very glad you stress the importance of reestablishing the economic disaster loan program. The last figure that we had in terms of interest rates was somewhere around 8, which perhaps would cause some of the businessmen to be more willing to take a risk, waiting for the customers to come back—8 as opposed to 14.5. If we could get the economic disaster loan program back at a rate significantly less than the 14½-percent rate, what, if any, impact would there be on small business?

Mr. STRUIKSMA. Mr. Chairman, let me indicate to you that during your opening address where you mentioned the 14-plus percent, I would have to share your point of view that actually the small business person who is in a state of economic disaster, is virtually eliminated from that help.

I think that with a coordinated effort of the local SBA offices, it would perhaps provide that added bit of assurance that they could remain, if the rate was down to what you have just mentioned, in the neighborhood of 6 or 7 percent, perhaps even 8 percent. I think that at a rate of 14-plus percent, it might as well not be offered.

Mr. MITCHELL. Thank you.

Congressman Siljander.

Mr. SILJANDER. I have two points. No. 1, I appreciate the specifics of outlining some of the problems. I don't know if any of us have solutions specifically at this point in time. But giving us clarity of the problem is deeply appreciated. That is one of the roles, at least I feel—we have to try to understand your problems as best we can.

Let me just ask a philosophical question, and that will be my only question, Mr. Chairman. You mentioned you supported reinstatement of the Federal economic disaster type loan program. Philosophically, of course, some people in Congress would oppose this—and that is one of the reasons why the program was dropped—how do we define an economic disaster?

Again, in Michigan, the plight of the auto industry is certainly an economic disaster. Granted the Chrysler loan program was implemented for better or worse. But how do we define economic plight? Every city in the country, I am sure, faces some form of crisis for some reason or other.

What is your basis for an economic disaster loan for San Diego, besides the fact that you represent San Diego on the council, which is an understandable bias. But from a philosophical point, would you support that in other areas of the country or just for San Diego?

Mr. STRUIKSMA. No, I would support it in other areas. When we were discussing this particular aspect of it, an economic disaster, would it be such if a ski resort didn't get snow? I am assuming that all of us could go on and list examples.

I think what we are looking for, what I would hope would be achieved with the reinstatement, is the policing power of the SBA to make those determinations on a case-by-case basis. I think you cannot just perhaps say if you didn't get snow, therefore, you are entitled to an economic disaster loan. If in fact that is the only industry in the country, maybe you would be. But I think that would require an intelligent approach on the part of those administering the program and not simply open it up for everybody for every type.

Mr. SILJANDER. So what you are saying is it should be left up not to your or my philosophy, but rather the SBA philosophy, their definition of a distressed economy or business.

Mr. STRUIKSMA. I think they would be in a good position.

Certainly officials on the local level would have an opportunity to talk to them, explain to them what they felt the plight of that particular industry was. A determination could be made perhaps by an individual somewhat removed from the problem, based upon a lot of factors—how much is available, where other problem areas are occurring—and the decision could be made on a need for services basis.

Mr. SILJANDER. In closing, I think you can, I hope, appreciate the concern that some of us have with the philosophy of concern with what is the definition of a distressed area. As you brought out, is lack of snow a concern for a ski lodge, or foreign imports for an auto industry? We could go on and on with the list of potential examples that could easily, I am sure, in a very graphic manner deplete the entire source of revenue for any type of program, with the economy the way it is.

Mr. STRUIKSMA. I appreciate what you are saying. If, for the sake of argument, you were successful in reinstituting this program, it might be determined that San Diego wasn't qualified for it. But, nevertheless, I think it would be an important step for the small business community throughout the United States.

Mr. SILJANDER. I appreciate you concern also with the free trade zone. I, too, feel these kinds of concepts of the private sector through Federal incentives are certainly an approach of merit, as are the urban enterprise zones.

Thank you.

Mr. MITCHELL. I, too, want to thank you. I think it is important to spell out for the record that, in terms of the past operations of the economic disaster program, what we did, what the SBA did, was to primarily look at disasters which were caused by no fault of that community. And clearly in this case, the action of the Mexican Government is totally external to San Diego and the rest of the counties. And I think if we had the program in effect, this area would certainly be qualified.

I think it is important also to point out for the record that a case-by-case procedure is exactly the way SBA acted in the past on the economic disaster loan program. Not everyone who came in crying "Lord, Lord, save me" got saved. In fact, I think the vast majority of those were turned down. But I think we need that program back in place to meet this kind of really tremendous devastating situation that you are confronting.

Thank you for being here.

Mr. STRUIKSMA. Thank you, Mr. Chairman.

Mr. MITCHELL. Our next witness is Dr. Morris Clement, the coordinator for border programs, San Diego State University.

Dr. Clement, thank you very much for being with us this morning.

**TESTIMONY OF DR. NORRIS C. CLEMENT, COORDINATOR OF BORDER PROGRAMS, CENTER FOR INTERNATIONAL PROGRAMS, SAN DIEGO STATE UNIVERSITY, SAN DIEGO, CALIF.**

Mr. CLEMENT. Good morning. I am Norris Clement. I am a professor of economics at San Diego University. I work in the Center for International Programs there as the coordinator for their border programs, that is, programs that we have going on in terms of academic interchange with universities and institutions in Baja, Calif., and Mexico.

I have submitted to you some written testimony, including three articles that I have published in the local San Diego Union over last summer, and then some of the things that I thought were relevant to your deliberations here that I have written up. If you will allow me, I would like that to be put in the record, and I would like to discuss some very frank positions here. A lot of this is repetitive of what has already been said. If you will struggle with me, I would like to get at some issues here that I think are important to you.

Mr. MITCHELL. Without objection, your entire statement will be submitted for the record. You are absolutely free to discuss as you see fit.

Mr. CLEMENT. Thank you.

I think there are two issues that your committee must determine, two large issues. One issue is how long is the present crisis in Mexico going to persist and, therefore, how long will the impact of that crisis persist in terms of its negative fallout on our small businesses in San Diego. And the second one is what is the magnitude of that impact on output, incomes, and employment on this side of the border.

As a kind of subset of that last group of problems there, again, how does that impact on the rest of the United States. And I think that goes to the Congressman's point. You were concerned earlier about whether this is a national problem or a regional problem here. I think there is some concern here. I will try to address some of those issues.

Mr. SILJANDER. Thank you.

Mr. CLEMENT. First, in terms of how long this problem will persist, I have been trying to get at that problem for myself. I think it is very relevant, because if the answer is simply that it is a temporary problem, that is, to get people from here through the Christmas holidays, then obviously low-interest rate loans and that kind of thing would help.

On the other hand, if it is a very long-range problem we are suffering, then I think that other measures are appropriate.

I addressed these when I gave testimony to Mr. Ham's committee for the State of California. At that time, I said what I will say now, and that is that, in my viewpoint, I believe that this is going to be a rather long-term duration problem. There are several reasons for

this. The current crisis which has been called a liquidity crisis, is in Mexico, and it is a very deep crisis for Mexico.

I have been following the Mexican economy for about 17 years. This is a crisis that has very little parallel since, let us say, the 1930's or even since 1910. The problems are structural. The problems are compounded by the present soft global economy and the soft oil economy throughout the world. It is kind of ironic, and I mentioned this in my testimony, that the recovery of both those markets, that is the overall economy throughout the world and the petroleum markets, is tempered to a large extent by what the U.S. economy does.

So what is happening is that the fallout on the border region is, to some extent, due to the fact that the United States is not performing well. The global economy is not performing well as a result of that, and so the Mexican economy, which is a relatively open economy in terms of imports and exports and depends upon exports to the United States and the rest of the world, has suffered and has not been able to adjust to that in the short run.

Therefore, Mexico has gotten itself into a problem where it has had very high rates of inflation, has suffered some problems in terms of exports and, as I outline here in my testimony, all the problems kind of came to a point in the last few months with a tremendous capital flight which seems to be still going on—I am sure some of our banker friends here will tell us about them today—a capital flight out of pesos into dollars, the citizens of Mexico trying to hang on to whatever savings they have and are willing to pay a discounted rate for dollars in order to get their savings out of Mexico and into currency they consider to be more stable.

This liquidity crisis is not evidently being solved. There are some negotiations going on with the International Monetary Fund. The International Monetary Fund has evidently taken a cooperative view toward Mexico. The U.S. Government has taken a cooperative view toward Mexico. It is in everyone's interest, I think the bankers will tell us, to resolve this liquidity problem that exists at this time.

However, due to the structure of repayments of the interest, due to the structure of the payments of the principal that have come due and have not been paid, and so on, Mexico's liquidity problem, that is its dollar problem, in my view will not be solved within the next few months. Available indications are that it may take 2 or 3 years in order to have a situation where Mexico has an availability of dollars which will allow shoppers to, as we talked about before, normally resume their purchases here in the San Diego, Calexico and El Paso areas.

So I think there is that aspect of the problem that all available expectations of my colleagues here in the United States and in Mexico could indicate it will be a long-run problem.

Let me say one more thing about that. The Congressman from Michigan also indicated that there were benefits from this trade in the past. That certainly is true. What has occurred is that the inflation rates of Mexico and the United States diverged, that is, Mexico's inflation rates have been three, four, five times as high, depending upon the time that you pick, than inflation rates in the United States. Given a relatively fixed exchange rate between the

peso and the dollar, it is more attractive for Mexicans from Mexico City, from other places in northern Mexico and from Tijuana to come to San Diego, a place where there is a very adequate structure of retail markets available to them, and, because of the price advantages and what they perceive as quality advantages, to spend their dollars here. They also invest in real estate and other kinds of real property.

As the rates of inflation diverge even more, there is more benefit to the people who are selling to the Mexicans in the border economy on the U.S. side.

Many of the people involved in this trade in the last 5 years have been aware that there are at least two risks in tying your business to the border or to the Mexican market. One is that past history has shown us that Mexico will devalue when it is in their interest to do so, and devaluation means a change in the terms of trade. That is, the things that Mexicans buy from us become more expensive and the things that we buy from them become cheaper. That is the intended idea of a devaluation.

Therefore, we have had what I consider to be a roller-coaster effect as the rates of inflation go up in Mexico, and then we reap the benefits. However, when the devaluation comes, the terms of trade are turned against Mexico and they supposedly reap the benefits, and our border merchants here are hurt.

My point here is that many of the merchants knew this was a risk of tying their businesses to Mexico, and it was a calculated gamble for many of them. I have a feeling, however, that some of them did not adequately take that into account in their planning. But certainly the larger firms hired consultants to advise them on this kind of thing, et cetera.

The second risk that was involved in border trade was the existence of the free zone in Mexico for the last few decades which basically gave Mexicans in the border zone a fiscal advantage that other parts of Mexico didn't. That is that many of the goods that were imported into Mexico did not have to have any licenses and did not have to have any import duties paid.

This is a phenomenon or a fiscal exception that is in action for a period of 5 years, I believe. Each 5 years it must be renewed. I think the next time it is supposed to be renewed is either 1983 or 1984. It has always been a point of contention between the border—people who represented the border economy and the people who represented the interior economy of Mexico that that free zone status should be phased out or curtailed in order to be able to bring the border economy more into the Mexican economy, link it more with the interior economy because, historically, this economy—in Tijuana especially—has been more tied to this side of the border than to the other side of the border.

It, therefore, has been a threat to the border merchants on both sides of the border that that free zone would somehow be curtailed some day. It seems now that the significance of the free zone has been curtailed, has been erased, in view of the fact that there are no dollars or very few dollars in order to buy on this side of the border and, therefore, the imports into that side have been drastically reduced.

I am saying this because I think that all businesses are subject to certain kinds of risk, but there are some special risks going along with the special benefits that you pointed out.

Let me make one more comment about the general situation and then I will try to clarify what I know about some of the data that you have been looking at.

In terms of what is going on with the peso and the dollar market transactions, I think the best way to understand what is going on now is to say that there has been kind of a chess game going on. The liquidity crisis in Mexico triggered a series of reactions including exchange controls and the nationalization of the banking system, and the banking system nationalization, at least ostensibly, was to make more efficient their control over those dollars they were trying to get ahold of in order to repay debts and to keep the machinery going in Mexico. The Mexican economy depends greatly upon imports, especially from the United States, as inputs into their production processes. Therefore, if they are without dollars for a long period of time, basically the machinery can just grind to a halt in many areas and production will fail.

So, therefore, it is an absolute necessity for the Mexican Government at this phase of its development to be able to have the dollars to buy the imports from the United States to keep their own economy afloat. Therefore, what they have been doing is trying a number of mechanisms to see what will allow the dollars to come to Mexico and be retained there.

The border economy is a very unique economy in that we are a very integrated, interdependent economy, despite the asymmetry of that market that has been pointed out here today. It seems like we do benefit more from that than the Mexicans. However, what has been occurring is as soon as the Mexican Government makes a move in terms of exchange controls on that side of the border, there is a corresponding adjustment in terms of new markets, like the Casa de Cambia exchange houses springing up on this side of the border. Then the Mexican side says, "What we will do is exempt the 12-mile strip along the border from exchange controls and we can therefore have, in effect, another tier of exchange controls for the border, a special kind of situation for the border." I think that demonstrates the flexibility with which the border economy reacts to these kinds of things.

Now, I guess what I am criticizing here is a number of suggestions that have been made since the very beginning that somehow we ought to go into the exchange business in the Federal Government and guarantee the exchange of pesos into dollars. It is, No. 1, not in the interests of the Mexican Government for the United States to go into the banking business in order to guarantee exchange from pesos into dollars. I don't think, given the position of the U.S. Government in terms of trying to cooperate with Mexico in its liquidity crisis, that the U.S. Government is going to consider trying to basically undermine the efforts of the Mexican Government in order to get those dollars.

Incidentally, it is not in our long-run interest as a Nation to do that kind of thing because they owe us some money, and I am sure the bankers will talk about those ramifications later on.

So therefore I think this chess game is going to go on. One of the implications of what I am saying here is since we are not talking about a natural disaster that is out of our hands, I think that once a new president is in place in Mexico, possibly at the national level and perhaps through the Governors Conference or through informal channels thereby, it might be possible for the United States and Mexico to sit down and say it is understood that the border economy is a special economy and what kind of accommodations can we come to that will short circuit this chess game that we have going on here. That is one possibility that hasn't been discussed here it seems to me. I think it might come out to be one of your recommendations to the Federal Government, that not only are petroleum sales and so on fair game for negotiations but what happens in the border economy.

Some of my friends and colleagues in Mexico feel that the new president-elect would be amenable to talking about trying to smooth over some of the conflict in this border economy. I don't know what the results of such negotiations would be, but I think it is a possibility we have not discussed here.

Now, let me leave that for a moment and go to, then, the problem of data. It is very difficult, incidentally, to get precise data on what are these impacts. One of the reasons for that is that it is not exactly clear in the eyes of a retailer or a wholesaler who is a resident of Mexico. There are many Mexicans of dual citizenship, or United States citizenship, who would appear to an Anglo shopowner as a Mexican. The figures that we have are really best guess estimates on the basis of samples that we have done, and as Mr. Struiksma pointed out they are not precise figures, but they represent some ballpark figures gathered in a scientific way.

We don't know precise figures. And I want to just put that into the record here again. We not know who are Mexicans coming from which part of Mexico when they make a purchase in our department stores here or in our wholesale distributors. Also sometimes getting that information—I have been a researcher in this situation, and many of our businesses, especially the chain stores which have a very competitive situation here along the border feel that that is company business and should be retained as confidential—is difficult to get on a store-by-store basis. Simply, some stores will not give that kind of information, as to what percentage of their total sales come from Mexico.

Therefore, with that disclaimer in mind, let me give you some of the data that a study that we at San Diego State carried out in 1978 yielded to us. We are going to give you these figures in percentage terms, because we feel that the percentages would still likely be accurate, because the growth of purchases brought to and from San Diego from Tijuana probably have not changed, but the smooth figures have changed. This weekend I was able to get ahold of some of the figures that I think might be helpful to you. But due to the short period of time that I had in gathering these I don't have all the figures that I am sure you would be interested in.

Let me give you some suggested figures here.

Mr. SILJANDER. Excuse me. Are any of these in your testimony?

Mr. CLEMENT. No, these are not. In 1978, we calculate that Tijuana purchases in the San Diego County area accounted for 4 to 5

percent of retail sales. I trust that figure because other similar studies have come up with approximately the same figures. Tijuana purchases accounted for in that same year approximately 7 percent of wholesale sales. However, since those are only two of the sectors of the San Diego economy, then, Tijuana purchases at wholesale, retail and other levels according to our figures accounted for less than 2 percent of San Diego income and employment—less than 2 percent of the total.

Now, in the Imperial County area, Mexican purchases there accounted for 17 percent of retail sales.

Mr. MITCHELL. Same year? 1978?

Mr. CLEMENT. 1978. Seventeen percent of retail sales, and 9 percent of wholesale sales. That therefore represents that Mexicali purchases of a variety of goods and services accounted for some 7 percent of Imperial County's employment and income.

Now, you were talking about some of the unemployment figures with one of the other persons giving testimony. I was in Imperial County last week, and I was informed that at the present time the unemployment rate there is approximately 37 percent for the county as a whole. As far as I know, there are not disaggregated figures for Calexico and El Centro. But that is up from about 20 percent about 2 years ago. As a matter of fact, the Imperial County usually has a very high rate of unemployment due to a variety of factors—seasonality in agriculture, et cetera.

I think given the information I have heard that unemployment is accounted for partially by the especially dramatic impact of the peso devaluation on retail sales and tourism, but it is also accounted for partially by the recession we are having in the United States. A number of plant closures have occurred in the Imperial County in the last few months, and the impacts of those were relatively dramatic.

So the figure was 39 percent I believe in the middle of the summer and it has now receded to 37 percent. Those are some of the things that I felt you might want to know about. The rest of it you can read. If you have any questions, I will be very glad to discuss these things with you.

[Mr. Clement's prepared statement and attachments follow:]

PREPARED STATEMENT OF DR. NORRIS C. CLEMENT, COORDINATOR OF BORDER PROGRAMS, CENTER FOR INTERNATIONAL PROGRAMS, SAN DIEGO STATE UNIVERSITY, SAN DIEGO, CALIF.

The economic and political situation in Mexico has been changing so fast that it has frequently been difficult to comprehend exactly what is happening. Nevertheless, recent events can be capsulized as follows: Despite the relatively high economic growth rate (7 to 8 percent per year during the period of 1977–1981) the economic picture was clouded by high rates of inflation (25 to 30 percent) a growing gap between exports and imports (despite rising oil sales) and a sky rocketing external debt (from $30 billion in 1976 to over $80 billion in 1982). The devaluation from approximately 27:1 to 45:1 in February 1982 was designed to bring the dollar-peso relationship back to a more realistic level; but, unfortunately, it further eroded confidence in the government and the peso itself. The worldwide recession and soft oil market further aggravated the already overheated economy and the government was unable to adequately respond. Consequently, Mexicans raced to get their pesos into U.S. dollars and real estate which, in turn, put more pressure on the peso. In August, the peso was once again left free to float: it immediately plunged to over 100:1, and capital flight increased.

Immediately thereafter, the government: (a) established a two-tier exchange rate, (b) imposed rather stringent exchange controls, (c) froze dollar accounts in Mexico and made pesos the only legal means of exchange, and (d) surprisingly, nationalized the banking system.

Most experts are confused as to what all this means in terms of Mexico's economic and political future, the stability of the system that produced the "Mexican Miracle," and relations with the rest of the world. Is this, as some say, just a normal series of events occurring at the end of another scenario? Or, do these events signal extraordinary structural deficiencies in the system which will have to be attended to in the next administration? Whatever one's answer to these questions, the fact that a crisis exists in Mexico is indisputable. That a severe economic recession exists in the global economy is also clear, and is linked to what is happening in Mexico.

President-elect Miguel de la Madrid will face many serious domestic and international issues as he attempts to resuscitate the miracle. What we may be witnessing is the beginning of the latinamericanization of Mexico.

The effects of these events both in Mexico and in the U.S. have been disastrous. In the interior of Mexico, consumers are suffering from an abrupt decline of purchasing power as the rising costs of imports aggravates an already high rate of inflation; currently the rate of inflation is estimated to be somewhere between 60 and 100 percent on an annual basis—up from approximately 30 to 35 percent a year ago. Producers in Mexico, most of whom rely heavily on inputs from the U.S., are largely unable to obtain dollars to pay their debts or to import additional inputs. Production in key sectors is down, resulting in even higher rates of unemployment and underemployment. Government budget cuts are, of course, adding to Mexico's difficulties.

In the Mexican border region, from Tijuana in the West, to Matamoros in the east, the effects on producers and consumers could be more disastrous if dollars are not forthcoming. Mexico's border economy has historically been more tied to the United States than to Mexico. In Baja California, the long distance to the manufacturing and financial centers in and around Mexico City has fostered a higher dependence on U.S. consumer and production goods, and financial services. And the fiscal free zone, under which Baja Californians were largely freed from import duties, allowed consumers to shop on both sides of the border to select bargains from an international menu of goods and services. Producers also were largely free to purchase inputs from the U.S. and become steady and important customers of U.S. suppliers.

For the last five years the rate of inflation has consistently been higher in Mexico than in the United States. However, accommodating changes in the exchange rate have tended to lag behind the changes in purchasing power, making it increasingly attractive for Mexicans to purchase many types of goods in the United States. Consequently, many new stores and businesses have been lured to border areas in San Diego and Imperial Counties by the attractive Mexican market. The recent border boom was fueled by by high rates of economic and population growth in Mexico and a seemingly insatiable appetite for U.S. consumer goods.

Despite the attractiveness of the Mexican market there have always been two risk factors looming behind the scenes:

(1) Peso devaluations were an on-going threat to the stability of the market, and

(2) The Mexican Federal Government would probably limit or even abolish the free zone status of Baja California at some point in the future.

The knowledge gained from the 1976 peso devaluation, however, was ignored by many of the firms in the U.S. border areas. Given the high rates of economic growth and the high inflation rates generated by the oil boom from 1977 on, it didn't take Mexican shoppers long to find U.S. shopping trips worthwhile once again. Most observers believe that it took about 12 to 15 months for most U.S. firms to recover their previous levels of sales after the August 31, 1976 devaluation.

Based on that logic most firms gambled on the belief that the Mexican market would ride a roller coaster pattern that would run parallel to the 6-year terms of Mexican Presidents, that is the out-going President would devaluate the peso just before handing the reins to the President-elect. Then the next year or so after the devaluation would be slow for U.S. merchants until the level of inflation in Mexico made it attractive for Mexican shoppers to return to the United States. Then there would be another 4 or 4½ years of border boom trade until the next abrupt devaluation arrived, just prior to the change of government.

The Mexican Government tried to ameliorate this pattern with the introduction of mini-devaluations a couple of years ago, but that was not enough. Therefore, by February 1982, the peso was so overvalued that it was necessary to devalue it from some 29:1 to about 45:1. The intention was, of course to bring the value of the peso

back into line with that of the U.S. dollar, the currency of Mexico's most important trading partner. This, in turn, would discourage imports from the United States and encourage exports and bring the balance of trade into equilibrium.

Unfortunately, the action failed. Mexicans interpreted the devaluation as a sign of the peso's weakness and the government's inability to manage the economy. They responded with a massive capital flight, changing pesos to dollars, and proceeded to weaken the peso even more.

The government's action in August and September of 1982 can therefore be interpreted as defensive measures designed to both prop up the peso's value and retain the dwindling dollar reserves. Debt service payments to foreigners and dollar-peso transactions were suspended in order to stop the exit of dollars. Persons entering Mexico were able to buy pesos at 70:1, but Mexicans were generally barred from buying dollars except in special circumstances.

A black market emerged (illegally) in the interior of Mexico, selling dollars at various rates well above 100:1. And in the U.S. border areas (legal) exchange houses sprung up very quickly and began transactions at 90:1. Today, you can trade dollars for pesos at the rate of 115/120:1.

Given the Mexican Government's need for dollars in order to repay past debts and finance current imports, two courses of action are currently being pursued.

One involves the negotiations with the International Monetary Fund for a multibillion dollar loan. Despite the need for dollars and the necessity to make peace with the international banking community, Mexico's central bank head, Carlos Tello, does not agree with the conditions that the IMF wishes to tie to the loan. What the IMF wants is to obligate the Mexican Government to impose a series of stiff austerity measures which will, in effect, deflate the Mexican economy by creating a deep recession. In a country already suffering from widespread poverty and some 800,000 new entrants into the job market each year, the results could be catastrophic. However, if Mexico defaults, the fallout would ripple through the United States and the international banking system.

Another action designed to increase the capture of dollars has been the announcement that dollar-peso transactions will be allowed to exist along a 12 mile deep strip along the U.S. borders. This measure, if successful, would increase the flow of dollars into Mexico depriving the San Ysidro and Calexico Casas de Cambio of their new found businesses.

In conclusion, I would like to offer a few observations relevant to the current situation that might aid you in thinking on the nature and magnitude of the present situation in the California border areas.

First, the present crisis in Mexico is not likely to be solved quickly nor is it likely that the recession will be shallow. Therefore, problems of U.S. border communities with respect to the Mexican market are not likely to go away in the short run. It is possible in fact, that the very structure of the border's economy will change considerably.

This is true for at least 3 reasons:

(a) As noted above the Mexican Government has for some time wanted to better integrate its border economy more into the economy of Mexico's interior. Despite claims to the contrary the free zone now has lost much of its significance due to the current economic problems.

(b) Mexican incomes are much lower in terms of purchasing power than before the devaluation. However, Mexican goods are much cheaper than U.S. goods and therefore both Mexican producers and consumers are very rapidly adjusting to the new price structure. Consumers are getting used to Mexican goods and producers/retailers are busily lining up new suppliers in the interior of Mexico.

(c) Given the scarcity of dollars, it is clear that the government will do whatever is necessary and prudent to get those dollars into Mexico and keep them there. In light of this, one wonders how long the San Ysidro exchange houses will be in business.

My second observation is that given the likelihood of a deep recession in Mexico, the scarcity of dollars, the involvement of the International Monetary Fund in Mexico's economy and the roller coaster pattern of an overvalued peso, one can anticipate that a more realistic exchange rate policy will be adopted. That is, exchange rate policies will be designed to keep U.S. exports to Mexico relatively expensive and their exports to the United States cheap. This could, of course, be coupled with relatively fixed lower exchange rates for repayment of debts and the purchase of the most essential imports and perhaps a higher rate for the border regions in order to keep Mexican consumers in Mexico.

The ultimate effect of such actions, however, would still be the same; to seriously curtail U.S. sales to Mexico and increase Mexican sales to the United States. This

will seriously affect those firms in the border region and the interior of the United States whose sales are heavily oriented to the Mexican market, and in some areas Mexican products would replace U.S. products in U.S. markets. Available evidence indicates that in recent years approximately 5 percent of San Diego's retail sales depended on Mexican shoppers. For border communities like San Ysidro and Calexico, the figure would be much higher. However, it will not only be those communities that will be hurt. Suppliers throughout the Western part of the United States will be affected as well and their reduced sales will ripple throughout the entire economy affecting both incomes and employment. The effects of Mexico's economic crisis at a time when the U.S. economy itself is in a severe recession compounds the seriousness of the situation.

In view of the high degree of interdependence between the United States and Mexican economies, we can safely say that Mexico's current crisis can only be ameliorated by recovery in the global economy and/or global oil markets. Ironically, a global recovery depends largely on the U.S. economy.

Finally, it should be mentioned that historically the United States-Mexico border region has shown great resiliency in adjusting to new conditions. While the present scenario is rather blank, it is clear that the new conditions will present new opportunities for enterprising firms and individuals.

The new restrictions have created the necessity of joint ventures between United States and Mexican businessmen in light industry in Mexico to manufacture locally some of those goods which were previously imported from the United States. Obviously many other opportunities exist which will be perceived by those who daily observe the binational dynamics here in the border region.

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[From the San Diego Union, Sept. 5, 1982]

## Mexico Scrambles for Brakes To Halt Fiscal Slide

### NATIONALIZATION STRONG, MAYBE RIGHT, MEDICINE

(By Norris C. Clement)

Mexico's president, José Lopéz Portillo, delivered his sixth and last "State of the Union" address on Sept. 1. Given the country's extremely grave economic situation and the many rumors of an imminent military coup, this annual event attracted more than its usual share of attention, both in and out of Mexico.

With characteristic dignity and flair, the man who restored confidence to the Mexican economy in 1976 amid similar conditions once again addressed his country in a state of crisis. For some it was a "show," even a "farce," but for others it was an impressive display of both the ruling party's flexibility and adroitness and Lopéz Portillo's own political abilities.

The essential message was not new, however. In spite of Mexico's tremendous resources and economic accomplishments, its development thrust has been temporarily derailed by adverse world economic conditions and by domestic speculators. What is needed in the long run, he emphasized, was what he tried to stimulate at the Cancun summit meeting last year: serious dialogue between developed and developing nations, leading to a restructuring of the international economic order.

In the short run, however, he said Mexico was not going to be led to ruin by the present capital flight and speculation which was encouraged by the private banks. Therefore, he dramatically announced two presidential decrees: the nationalization of the country's domestic banks and the institution of a system of exchange controls.

While the latter measure was not entirely unexpected, the former came as a complete surprise, at least to observers viewing Mexico City from afar. It was a surprise for at least three reasons. One, it is not immediately clear that the private banks played any special role in the events leading up to the recent capital flight. Two, nationalization of any sector of the economy would, under usual circumstances, tend to decrease confidence in the system rather than increase or restore it. And, finally, it is not clear that the measure really was needed, given the high degree of control that the government already exerts over the commercial banks.

Yet, there is a logical line of reasoning that, on second thought, might cast a more positive light on nationalization under present circumstances. First, just as the nationalization of the petroleum industry in 1938 brought Mexico together and strengthened its nationalistic spirit, one might expect national unity to increase by such a symbolic act. And, as an added dividend, one could expect that nationaliza-

tion, usually interpreted as a "socialist" measure, would pacify the left and labor groups as living standards fall and social unrest increases.

Second, in economic terms if, as President Lopéz Portillo says, the government's control over the nation's credit and foreign exchange transactions will be increased through nationalization, then this could enable the government to better allocate available credit and thereby better implement an expanded and hopefully improved system of planning and budgeting during the next administration. Nationalization also could inspire more confidence among depositors who have been forming long lines in front of private banks to withdraw their funds—their assets would now be backed by the government and Mexican private bank debts will now, it seems, become public debt. That also could inspire more confidence among Mexico's private sector.

Finally, nationalization of the banks could be regarded as a symbolic way of fighting back—maintaining domestic and international credibility—as Mexico goes to the International Monetary Fund (IMF) and the U.S. government for help. Countries accepting the usual conditions imposed by the IMF pretty much have to "turn belly up" as they surrender domestic autonomy over fiscal and monetary affairs as the cost of receiving hard currency loans. Reductions in government deficits, and subsidies, and elimination of inefficient government enterprises are all part of the IMF prescriptions for curing its patients. But what could the IMF say about a measure such as this, which is designed to improve the efficiency of credit and foreign exchange markets? Some observers even go so far as to say that the nationalization itself was more a bail-out of the virtually insolvent private banking system than an aggressive act of confiscation.

At the time of writing, we still don't know exactly how nationalization will take place. All we know is that the banks' new owners will be the government (while the old owners will be justly compensated) and the central bank soon will be converted into a "decentralized, public institution." Yet, given the federal government's questionable performance in handling the economy in recent months, how can we expect the government to run the banking sector and complex exchange controls with a high degree of efficiency?

Lopéz Portillo's skillful and dramatic presentation of the factors leading up to capital flight and the recent devaluations carefully attributed the blame to the international economy and domestic speculators—traitors to their country—and was encouraged by domestic banks. By nationalizing the banks, he has, in effect, cleansed the Mexican political economic system and cast himself in the position of the system's savior—assuring him of a respected place in modern Mexican history.

But what happens to Lopéz Portillo's conclusions and his place in history if one does not accept the validity of his arguments? One element conspicuously absent from his carefully constructed account of the nation's ills is the role of the government itself in managing the nation's resources in the context of the deteriorating international economy and global energy markets.

It certainly is true that the Mexican economy has become increasingly integrated into the global economic system and therefore has less autonomy with respect to domestic economic policy. Nevertheless, the case could be made that the success of a system should be measured on the basis of its ability to adjust to external forces. In these terms, Mexico in the last few years does not receive high marks.

But why has Mexico been unable to deal adequately with an increasingly difficult set of external forces? Is it because its planning and budgeting system is deficient? Or is it because of the rampant corruption that many Mexicans say penetrates the entire system? In fact, there now exists a campaign for renovation morals (moral renovation which is unprecedented in the Mexican context).

In some ways it is unfortunate that corruption has become such an issue in the present situation. After all, corruption is present in varying degrees and forms in all national systems. However, it may be that the extent of corruption among some government officials, especially in Mexico's foreign exchange and petroleum transactions, has escalated to such a level that it became a significant factor in creating an adverse psychological environment that, in turn, contributed significantly to the capital flight and subsequent devaluations. Perhaps the limits of corruption have been exceeded and the system simply has begun to break down.

If this is true, then Lopéz Portillo's argument is seriously deficient, and what we saw last Wednesday was, as many Mexicans have said privately, a show designed to divert attention from the real causes of Mexico's difficulties. According to their view, it will be up to Lopéz Portillo's successor (who presumably gave his blessing to the latest decrees) to take up the more difficult task of restructuring the system itself. As former secretary of planning and budgeting, President-elect Miguel de la Madrid Hurtado would seem to be technically qualified to carry out such an endeav-

or. But it frequently has been said that he may lack the political abilities to juggle the demands of the right and the left, the U.S. and Cuba and Central America, international and domestic economic pressures, and military and civilian interests, in the process of restoring confidence and credibility to "the system."

It is still too early to be able to assess the many consequences of Mexico's on-going crisis. It would be unfortunate, however, if the president's recent decrees were interpreted (in and out of Mexico) in an ideological sense as a "drift to the left." The logic of the last several decades of Mexico's development strategy clearly has been that of a capitalist economy increasingly guided by a capitalist-oriented government sector. In our own (U.S.) system, "government intervention" is seen simultaneously as a necessary vehicle for maintaining economic growth and political stability and an insidious force leading to its demise. Similarly, Mexicans view "government participation" in the economy with great ambivalence. Recent events must be understood within the Mexican context as the latest manifestations of a developing economy evolving (or struggling) within externally defined "rules of the game."

One likely scenario for Mexico's future would seem to be increased social unrest, giving rise to increased militarism and reduction of democratic processes. If Lopéz Portillo's recent decrees are instrumental in buying time until his successor takes office Dec. 1, then the probability for preserving the present level of democracy may be increased. However, the main value of the nationalization measure may be political and it may not really resolve the fundamental structural problems of the economy.

The posture of the United States as this process unfolds could be crucial. The U.S. historically has played a key role in determining who gets power and how it is used in Mexico. While nationalization of the banking system and exchange controls may seem like extreme measures in the United States, and may bring considerable inconvenience to our own lives, they are quite normal in the Latin American context.

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[From the San Diego Union, Aug. 29, 1982]

## The Peso: How Far to the Bottom?

(By Norris C. Clement)

The very nature of Mexico's economic development process during the last 40 years has led to an economic structure with serious deficiencies. High unemployment and inflation, trade and budget deficits, and a rising foreign debt during the 1970s and 1980s were all manifestations of such deficiencies. Furthermore, while the increased oil and gas revenues were potentially capable of relieving many of these structural difficulties, inadequate planning and budgeting and the global oil glut and recession plunged Mexico into the mire of high inflation, economic panic, capital flight and, finally, devaluation.

In earlier analyses of Mexico's situations I have noted that, given the undervalued peso and the probability of a series of managed mini-devaluations accompanied by governmental policies to reduce inflation, economic logic would indicate that abrupt devaluations could be avoided in the immediate future.

Clearly economic logic did not prevail. It seldom does—and at the time of this writing the peso-dollar exchange rate was close to 100 to 1. Many observers have stated publicly that this is perhaps Mexico's greatest crisis since the 1910–17 revolution. Given Mexico's contiguous location with the United States and its increasingly important role in hemispheric geopolitics, it may be valuable to begin now to analyze what is happening so that once the dust settles we will have some idea of where Mexico is heading.

Most private and published accounts of the past weeks' events coincide in that in most respects the August devaluation was essentially a continuation of the February one. That is, the global recession had not disappeared, nor had the oil glut, and while inflation was still rising, interest rates still had not fallen and Mexican firms still were suffering serious liquidity problems. Apparently the Mexican government still had not been able to trim its expenditures to meet its declining revenues. These factors tended to reinforce the rumors that another devaluation was imminent. The psychological environment created by these and other factors aggravated an on-going capital flight (accelerated purchases of dollars) which, reportedly, amounted to some $2.5 billion per week.

This capital flight apparently was based on three related but separate motives: (1) to take advantage of the higher (real) interest rate in the United States; (2) to specu-

late in the peso futures market; and, (3) to "hedge" against possible losses from inflation and/or future devaluations of the peso.

As a result of these pressures, the Central Bank of Mexico announced on Aug. 5 that it no longer could supply enough dollars to meet the increasing demand; it simply had run out of dollars. The exchange rate promptly fell from 49 to 1 to about 75 to 1.

In the following weeks, panic and confusion characterized the mood of the country as the government first established two exchange rates—a floating rate for most transactions and a preferential rate (49 to 1) for importing essential goods and paying interest on foreign debt. Then, on Aug. 12, the government announced a temporary freeze on dollar accounts in Mexico, which, in turn, was accompanied by a suspension of peso-dollar transactions by commercial banks.

On Aug. 18, the government moved to clarify what had been (and still is) a rather confusing situation. Numerous government, government-owned and credit enterprises were ordered to turn their dollars over to the country's central bank so that it could "more efficiently administer them." Holders of dollar accounts in Mexican banks also were freed to withdraw their assets, but only in pesos—at a rate of 69.5 to 1 dollar. Then, if dollars were available in the commercial banks, they could be purchased at the free rate, somewhere around 100 to 1. Thus, it appears that there is to be a three-tiered rate of exchange: the preferential rate, the dollar rate, and the free rate. And, while there is not now technically a freeze on dollars leaving the country, it is sufficiently difficult and expensive to convert pesos to dollars that most people will be discouraged and the capital flight will diminish.

It was not long, however, before black market dollars showed up on the streets of Mexico City and reports were published of government officials discretely offering to obtain dollars for an appropriate monetary consideration. "Exchange controls are inherently corrupt," said the critics, "and in a country like Mexico, where the bribe is a way of life, the system is doomed to failure."

Defenders of the system were quick to point out, however, that controls can be effective if utilized over a short period of time, while measures are being taken to stop the panic buying of dollars and the economy's direction and credibility once again are assured. Indeed, a major international rescue operation is now under way which includes:

A $1 billion advance from the U.S. government on increased oil imports from Mexico to replenish the U.S. Strategic Petroleum Reserve.

A group of central banks has agreed to provide a loan of $1.5 billion in order to bridge a foreign currency gap.

Mexican officials have begun talks with the International Monetary Fund over a three-year, $3.9 billion loan ($1.5 billion this year) and with private (foreign) banks in order to provide fresh cash, to the tune of about $4 billion.

All in all, Mexico wishes to obtain some $5 billion in foreign currencies in the very near future in order to replenish its reserves, resume international payments and begin to restore confidence in the peso.

In the next time frame, Mexico will begin talks with the holders of its $80 billion public external debt, which is owed to over 1,000 of the world's commercial banks, foreign governments and multilateral lending agencies. Mexico's finance minister already has suggested a suspension of principal payments until the end of 1983. With respect to the private external debt, which probably amounts to some $35 billion, that, too, will have to be restructured and some payments of either interest or principal will be suspended temporarily.

Now, let's step back a bit from this rather simplified picture of Mexico's increasingly complex reality and ask: What does it all mean? What can we expect to fall out of all of this mess?

First, viewed from the Mexican side of the border, there undoubtedly will be some important changes. Most important of all will be the deep recession that almost certainly will follow. As one Tijuana public official told me last week, "We are now in a state of semiparalysis. Without dollars the border doesn't function at all and the interior of the country just barely makes it."

Assuming that the rescue operation outlined earlier in this article is successful, more dollars will be available once again in the near future. But the world's bankers and governments are not bailing out Mexico for altruistic reasons. They are there because without their "help" Mexico will not be able to repay the interest or the principal on loans already made. Bringing in the IMF (which Mexico did not do in the February devaluation) virtually assures Mexico's creditors that the country's economic policies will be based on austerity, which means less governmental expenditures, lower growth rates and higher unemployment and underemployment as the cure-all for inflation (100 percent in 1982?), rising governmental and trade defi-

cits and foreign debt. This will be a big change for a country which had an economic growth rate of 8 percent in 1981.

From the Mexican perspective, the devaluation(s) already are having their intended effect. As one federal official in Mexicali told me, "We (Mexicans) have finally realized that we live in an underdeveloped country and cannot expect to live like our friends on the other side of the border. It is now clear that it is in everyone's interest to buy Mexican products, to the extent that they are available."

But not everything will go as planned for Mexico. There probably will be increased pressure on Mexico to open up the country to more foreign investment, which could mean relaxing the requirements of 51 percent Mexican ownership and other restrictions on foreign participation in the economy. And the pressures may mount to join GATT (the General Agreement on Tariffs and Trade) which Mexico declined to do last year.

Selling large quantities of oil to the U.S. Strategic Petroleum Reserve could signify another important policy change. Mexico previously had maintained implicit "solidarity" with OPEC countries by following the cartel pricing policies and not selling the U.S. the oil needed to build up that reserve—without which the U.S. would be more vulnerable to the cartel's actions. More recently, however, President Reagan had decided not to build up the reserve because (a) it was not needed at this time and (b) it was an expensive way of achieving energy independence. Now, of course, when the chips are down, Mexican authorities are weighing their priorities differently. We may even see a reversal of last year's decision to diversify its oil customers and sell more to private U.S. oil companies as well.

In general, then, we can expect Mexican economic, foreign and domestic policy to drift to the right. For those who are familiar with Mexican politics, it is clear that the changes noted here signify more accommodation to foreign (mostly U.S.) interests, a position which the Mexican left has fought against since the 1910 revolution. It is also a position that the ruling party has publicly supported as well.

The February devaluation signaled the end of the myth of oil as the ultimate panacea. While no one ever said it would be, most Mexicans and foreigners who are close to Mexico, silently hoped it would be. But with this year's devaluation came the realization that not only had the poor of Mexico been virtually excluded once again from the fruits of "progress," but that the nation as a whole was off course as well.

A number of explanations have emerged to explain the basic problems of the Mexican socioeconomic system.

The official government position is that Mexico's problems are due mainly to external factors—the deficient structure of the international economy, which seriously limits Mexico's policy options. Therefore, the current crisis derives from the world oil glut and the global recession, which in turn triggered the speculative ventures of Mexico's "irresponsible elites."

The conservative position, as articulated by most members of the entrepreneurial-capitalist sector (and, to some extent, the military) is that while a mixed economy is desirable in the Mexican context, the government has become increasingly inefficient, unresponsive and corrupt. Thus, its value as a viable instrument for administering the nation's resources has decreased.

The left in Mexico, divided as it is, tends to view the major culprit as the system of global capitalism itself, a position similar to the official one, which aligns them with the government. But the left maintains an ambivalent view towards the government itself. On the one hand, it says, the government is the only institution in a capitalist society which formally acknowledges its role in achieving an equitable society, but, nevertheless, exists at the pleasure of the capitalist class itself and ultimately represents its interests. In this context, inefficiency and corruption are viewed as pay-offs for representing those interests.

It is clear, then, that both the right and the left are increasingly critical of the government and the ruling party, the PRI (Institutionalized Revolutionary Party). But while the right would like to see less government involved in the country's economic affairs, the left would like to see an enlarged and more efficient economic planning mechanism which would deal more adequately with the nation's increasingly complex economic and social problems. This is not to say, however, that planning has become a purely ideological issue, since there are also many people in the private sector who advocate better planning as a positive step towards more efficiency and equity in running the nation's business.

No one presently is predicting an end to the PRI's dominance of the historically stable Mexican political system. But it is important to note that individual members of the military establishment privately are expressing dissatisfaction with the present regime; and organized labor, long a dedicated supporter of the government

and the PRI, is also apprehensive of the austerity which undoubtedly will be shouldered by the country's working class.

Mexican politics tend to dictate that when something big runs afoul, some high official takes the blame and quietly moves out of the limelight. Speculation currently runs high as to who will take the rap for the present situation. Apparently, President José Lopéz Portillo himself has accepted responsibility for the situation as a means of disassociating the system from any culpability and thereby providing President-elect Miguel de la Madrid Hurtado with a stronger position once he assumes office.

From the U.S. perspective, Mexico's potential drift to the right can be viewed differently, according to one's perspective. U.S. border businesses certainly are being affected adversely by the abrupt shift in relative prices between U.S. and Mexican goods. Both Mexican consumers and Mexican businesses are now less able to purchase U.S. goods and services. U.S. border region residents are, of course, in a good position to obtain real bargains at today's prices on Mexican-produced goods, restaurants and hotels, air fares, etc. However, with the inflation rate reaching triple digits, it is doubtful how long those bargains will last. And, in the short run, one danger is that in our haste to buy cheap Mexican goods we may cause shortages of essential goods in Mexico's border cities, driving up prices even more.

Viewed from Washington, the Mexican situation could be a cloud with a silver lining. Mexico's recession will, on the one hand, mean less imports from the U.S.—this already has occurred as a result of the February devaluation. It also could mean more undocumented migration from Mexico, although we must remember that the migrants will only stay in the U.S. if there are jobs available, and that depends on the U.S. economy. And, while the passage of the new, more restrictive immigration laws in the U.S. could not come at a worse time for Mexico, from Washington's perspective Mexico's decreased negotiating power could mean diminished protests from Mexico City.

Other potential benefits for Washington could include change in the overall energy picture as Mexico increasingly looks to the U.S. for markets; Mexico's liberalization of foreign investment laws and/or joining GATT certainly would be in accordance with Mr. Reagan's policies of free trade; and, finally, Mexico's weakened position could signal a change in Mexico's foreign policy which, in turn, could mean less criticism of the U.S. position on Central America.

As to the immediate future of the peso, it is virtually impossible to predict, given the incomplete and confusing picture presently as to what the government is now doing and plans to do in the future.

In the longer run, most U.S. and Mexican economists believe that even with its rapid population growth and current problems, Mexico has sufficient resources to become a major industrial nation and provide adequate food, clothing and shelter for its people. The next few months, however, will be crucial to Mexico in terms of resolving its immediate currency/debt problems, redefining a new economic policy with IMF's (unwanted) guidance, and revising foreign policy under conditions of increased dependence on the U.S.

Perhaps the most crucial question is how the Mexican government will retain its credibility and legitimacy with respect to both the Mexican people and other Latin American countries as it strives to restore economic stability under conditions of diminished negotiating power with the U.S.

The next few months also promise to be a very confusing time for U.S.-Mexico relations. The U.S. currently tends to view the world from the perspective of free trade and market forces. In Mexico, the virtues of free trade are hidden behind the giant multinational corporations and the powerful financial and military forces of the U.S. In the U.S., economic recovery is currently seen through reducing government while increasing private investment and productivity; in Mexico, economic recovery is seen through increased access to world markets via preferential tariffs, reforming the international economic order and better economic planning. How Mexico and the U.S. resolve their differences as the U.S. public and private sectors assist in Mexico's financial bail-out will be very interesting indeed.

[From the San Diego Union, June 13, 1982]

## Still More Pitfalls Will Peril the Peso's Struggle Toward Stability

(By Norris C. Clement)

### MEXICO'S DEVELOPMENTAL TIGHTROPE

The question "What's really happening in Mexico?" keeps popping up almost as regularly as "What's really going on with the (U.S.) economy, are we going into a depression?" San Diegans, of course, have good reason to ask these questions. After all, wasn't the 1976 peso devaluation (from 12.5 to 1 to over 20 to 1), together with dramatically increased oil revenues, supposed to keep Mexico's economy booming? And wasn't California's economy touted as inflation-proof, given the greater diversification and recent growth of high-tech industries?

Like the current U.S. situation, Mexico's present crisis has its origins in political economic policies carried out during the last several decades. Since World War II, when Mexico began emerging from what is usually called "underdevelopment" and entered its own "industrial revolution," its development strategy has tended to emphasize economic growth over social development—highways and steel mills over education and housing. Mexican and foreign investment in mining, manufacturing and agriculture were attracted by high rates of profit, low rates of taxation and political stability. Economic growth rates were high (5.8 percent per year) during the 1950s and 1960s and Mexico's middle class gradually expanded, but so did the population (3.5 percent per year).

By the late 1960's it was clear that the "Mexican miracle" had some holes in it. Not only were unemployment and underemployment growing—amounting to 40 percent to 50 percent of the labor force—but agricultural production began to stagnate and imports regularly began to exceed exports, which in turn, led to a rising foreign debt. Political stability also was threatened as students, urban workers and peasants expressed their dissatisfaction with a system that produced refrigerators, television sets and cars only for the richest 30 percent of the population, while hunger and poverty grew for the rest.

Throughout the 1950's, 1960's and 1970's, all of these problems were aggravated by Mexico's policy of "pegging" the peso to the dollar. In spite of a rising gap between the purchasing power of the peso and the dollar—an "overvalued" peso—Mexico held on, but not without significant costs. First, large quantities of capital goods were imported, mainly by U.S. multinational firms which were accustomed to "capital intensive" production processes, thereby not adequately absorbing the growing labor force. Second, given the high prices of Mexican-produced consumer goods and the high tariffs imposed on imported U.S. goods, the Mexican affluent and border residents became "hooked" on traveling to the U.S. for extensive shopping trips which were only moderately inconvenienced by the necessity to pay a "mordida" (bribe) to their customs officials as they returned. Thus, the overvalued peso increased Mexican dependency on U.S. imports and distorted the Mexican price structure to favor the use of machinery instead of labor, while aggravating an already unequal distribution of income and the country's balance of trade and foreign debt.

Of course, pegging the peso to the dollar was not the only factor that created Mexico's economic problems, but it was important in perpetuating what many Mexican economists called "dependent development"—a development strategy that depends inordinately (in this case) on the U.S. for stimulus and support. For example, it is often pointed out that about two-thirds of Mexico's trade is with the U.S., and that most (about 80 percent) of Mexico's foreign investment, lending and tourism come from the U.S. Thus, they say, "When the U.S. sneezes, Mexico catches pneumonia." Naturally, such a condition has become a source of irritation to Mexican policymakers as it reduces to an enormous extent their options. It is, however, a convenient scapegoat when trying to explain away problems which are of mainly domestic origin.

During the 1970's, under President Luis Echeverria, Mexico attempted both to correct some of the structural deficiencies of the domestic economy and to decrease the country's dependency on the U.S. History was not on Echeverria's side, however, and he ultimately came into direct collision with powerful domestic interests in both industry and agriculture, and with international markets as the world's economy plunged into recession in 1974-75. The results were increased inflation, economic stagnation, capital flight, domestic instability, strained relations with the U.S. and, finally, the devaluations of 1976.

Enter President Lopez Portillo in December 1976, who shortly thereafter announced the "rediscovery" of significant oil and gas reserves. (Not well known is the fact that Mexico during the 1920's was one of the world's largest oil producers until the foreign-owned oil companies switched over to Venezuela's cheaper and higher quality fields.) Lopez Portillo's chief job was to restore confidence to a faltering economic and political system and restore economic growth, which he did quite well. Within a few years Mexico's oil and gas revenues were fueling an 8 percent growth rate, generating new jobs and pushing Mexico into the forefront of international geopolitics. Mexico's euphoria was matched only by that of U.S. firms which were selling oil rigs and refineries, capital goods and grains to Mexico. U.S.-Mexico trade grew at annual rates over 40 percent and Mexico became the third largest U.S. trading partner.

Admittedly, the euphoria was dampened a bit by the 25-percent-plus inflation rate and, in the 1980's, "mini-devaluations" of the peso—around 1 percent per month—were carried out by the Banco de Mexico, Mexico's central bank, in tacit recognition of the once again overvalued peso.

In spite of the deepening worldwide recession in the late 1970's and early 1980's, the oil-fueled boom persisted. It was not until oil markets softened, as a result of the present temporary glut, that the financial world began to take note of the seriousness of Mexico's situation. Since 1977 international lending agencies and commercial banks have been lending Mexico large sums to finance getting the oil and gas out of the ground and into the world energy system. So much has been lent that Mexico recently surpassed Brazil as the largest debtor country in the Third World.

Mexico's plan was, in very general terms, to incur the large debt temporarily in order to import the capital goods necessary to expand the oil industry and boost other heavy, capital-intensive industries (petrochemicals and steel, for example) to the next threshold of development. Then, with the increased stream of revenues from oil, gas and petrochemicals and the reduced necessity to import steel and other basic goods, the debt could be reduced. Confronted with the dangers of "petrolization" of the economy and the accompanying political instability that hit other countries such as Iran and Venezuela, Mexican economists were, and still are, fond of pointing out that Mexico is not a typical oil economy, that it has a large and diversified economy which was already industrializing before the oil boom arrived, and, consequently, Mexico could avoid the many political and economic difficulties encountered in other oil-rich countries.

Nevertheless, when both the recent global recession and the global oil glut settled in, it was clear that in spite of that broad economic base, Mexico was in trouble. Plunging oil revenues meant that financial commitments all along the line, beginning with PEMEX and extending to virtually every federal, state and local government agency, were already made. So, apparently, spending went on while the trade deficit and foreign debt rose, and the economy began to overheat. Bottlenecks were encountered in transportation and housing, skilled labor became increasingly scarce and inflation rose. Mexican and U.S. tourists suddenly found that they could vacation cheaper in the U.S. than in Mexico, and in 1981 Mexicans for the first time spent more tourism dollars here than we spent there. Mexicans also found that more and more goods were cheaper on the U.S. side of the border and commerce all along the U.S. side rapidly expanded.

Even the mini-devaluations were not enough to dissuade Mexicans from converting their pesos to dollars, or buying the U.S. goods, or investing in U.S. real estate, and in general terms adding to the "dollarization" of the Mexican economy (that is, the tendency to both hold dollar accounts in banks and define transactions in dollar terms instead of pesos in order to avoid possible losses due to exchange rate fluctuations). Speculation increased, in both mental and financial terms, regarding the likelihood of an imminent devaluation, which added to the pressures on the pesos through increased capital flight.

On Feb. 17 the Banco de Mexico announced that it had suspended peso trading, which meant that it would no longer support the current exchange rate and would allow it to fall according to "market forces." The next day the rate fell from around 27.50 to 1 to almost 45 to 1, and since has fallen even more.

There are two important factors surrounding the most recent "devaluation"—officially the peso was not "devalued" but simply allowed to "float"—that are important to bear in mind. The first is that the exchange rate probably fell more than was necessary to bring the two currencies into approximate parity. This implies that built into the devaluation was an essentially psychological factor that tells us that the market expects a further deterioration of economic conditions in Mexico. Second, the fact that Mexico chose to "go it alone," without the support of the International Monetary Fund (IMF), is significant, in that it implies that Mexico's deci-

sionmakers do not want the IMF to impose its usual restrictions on wage, price, monetary, fiscal and lending policies, as it did in 1976.

Since the devaluation, a number of important events have occurred. First, a 20 to 30 percent increase of wages was granted to most workers shortly after the devaluation. This is not an insignificant event in view of the fact that this is an election year and the incumbent political party, PRI (Institutional Revolutionary Party), apparently felt it had to boost its standing with workers, even at the cost of aggravating an already soaring rate of inflation.

Second, the Grupo Alfa, a powerful financial-industrial group based in Monterey, suspended payments to an international consortium of 130 banks on a $2.3 billion debt, saying that the devaluation has hurt sales and made debt payments impossible. This and other developments have hurt Mexico's international credit worthiness and probably increased internal speculation about future devaluations.

Third, the Mexican federal government, in order to bring its inflation and debt situation under control, has instituted significant budget cuts. Some of these cuts will not directly affect the long run development of Mexico; they simply will take some of the "fat" out of Mexico's bureaucratic system. But some important projects probably will be delayed, or even canceled, and the indirect effects of less spending will slow the growth rate so that fewer new jobs will be generated, As one colleague put it recently, "If Mexico's economy doesn't grow at 6 percent per year, it doesn't absorb all the new entrants into the job market." In other words, anything less than a 6 percent growth rate represents a "recession" in Mexican terms.

So what will the future bring? We have some indications, but, as in the case of our own economy, so much depends on political decisions that economic logic is of little use until we know what those decisions will be. However, given the present "undervalued" peso, economic logic would dictate that there should not be a large and abrupt deterioration of the peso's value in the immediate future—despite rumors to the contrary. The present exchange rate apparently has built into it most of the psychological and objective conditions that contribute to its determination by market forces. Even the 20 to 30 percent wage adjustments, designed to maintain peace in labor markets, are now factored into the rate, as are the federal government's budget cuts and the international bankers' appraisal of Mexico's overall credit position.

In the longer term, of course, our economic perspective becomes more blurred. On the positive side, we see that the oil markets are hardening as OPEC's restrictive policies take hold. This could mean a boost for Mexico's oil revenues. Mexico also might begin to export more gas. And, since Mexico's "terms of trade" have been altered significantly by the devaluation itself, we can expect her imports to decrease somewhat and exports to increase, thus narrowing the trade deficit. However, there seem to be limits to this. A large portion of Mexico's imports are not consumption items but are used as inputs in the production of other goods, many of which are exported. And Mexican exports are limited by the stagnating international economy.

On the negative side, though, there appears to be a longer list of factors which bode ill for Mexico's future. First is Mexico's apparent inability to control government expenditures, wages and prices in all sectors. As political scientists in both the U.S. and Mexico frequently note, political stability in Mexico depends on maintaining a delicate balance and relative peace between the government, labor and the private sector. The major participants in each sector must receive their "fair share" of available goodies in order to deliver the peaceful participation of their respective sectors in the political system.

Such a system, not so different in many ways from that of the U.S., represents a process of social conflict which manifests itself in spiraling inflation. The Mexican working class long has been promised a share of the fruits of the oil boom, but has received mainly higher prices and a relatively smaller piece of the growing pie. Thus, if the government really were to put the brakes on public sector spending, wage and salary hikes and illegal price increases, the likely results would be to increase the frequency of strikes, "dollarization" of the economy, and a mass exit of investment capital to the U.S. However, not to put the brakes on these inflationary factors likely will lead to extremely high rates of inflation.

As it is, current estimates of inflation for 1982 vary from 45 to 70 percent and imply that if Mexico is going to try to maintain the peso's parity with the U.S. dollar, some sort of mechanism must be selected to do that.

Unfortunately, there is no mechanism that stands out as the best alternative. Each has its own costs and benefits. Nevertheless, there are indications that the Mexican government already has begun to manage a perhaps endless series of mini-

devaluations in order to avoid the abrupt changes experienced last February and in 1976.

There are, of course, many other factors which must be taken into consideration as we contemplate the future of the peso. One of these factors is the U.S. economy itself, as well as the entire global economic situation. Further stagnation, high interest rates and low inflation here could mean continued stagnation of Mexico exports and capital flight out of pesos into U.S. dollar investments. This, in turn, would contribute to the "petrolization" and general stagnation of the Mexican economy.

The possible consequences of this, given the real need to generate more jobs and higher incomes for the vast majority of the Mexican populace, could well be increased political instability with the resulting possibility of increased militarization and less democracy in Mexico.

In conclusion, then, barring the emergence of qualitatively new factors in the next year or so, we can expect a moderation of economic growth, with relatively high inflation, a growing debt and a lot of political maneuvering by the new president of Mexico to keep the lid on until oil markets firm and the economic "juice" turns on again. Even a relatively optimistic scenario for Mexico depends on the quality of Mexican decisionmaking and what happens in the global economy. And that, in turn, largely depends on what the U.S. economy does.

Mr. MITCHELL. Thank you very much, Dr. Clement.

First of all, I am very, very disturbed about what appears to be an almost impossible situation. You are indicating this is a long-term situation. I think the other witnesses have generally agreed to that, 18 months. You say perhaps as long as 2 to 3 years. As a partial remedy, someone suggested a retraining program for workers, and an attempt to woo more industry or different types of industries into these affected areas. My best guess is that that process takes 2 to 3 years. So you have a positive and a negative, really, canceling each other out, and the net result would be that if that happens, then you almost see the collapse of many of your small businesses in the Calexico area and the San Ysidro area, is that correct?

Mr. CLEMENT. I think that's true, sir.

Mr. MITCHELL. I am trying to phrase this carefully. You pointed out that this is a risk these people knew they were taking when they went into border trade, and therefore it is just one of the penalties they have to pay, is that right?

Mr. CLEMENT. Well, that is the cold, cruel way of looking at it. But you must look at the historical evolution of businesses here. I have talked to many of the businessmen, not all of them, and many of them have grown up in the border region; it is part of their way of life, and they knew this was coming up.

At the same time, one gets kind of psychologically locked into dealing with one sector of the market. I have talked to other businessmen along the border who say that they always had this idea that, No. 1, the free zone would be phased out, or that there would be these kinds of abrupt devaluations and therefore they diversified and are able to pick up from where they are today and still stay in business. I think what we see there, sir, is a continuum of businesses, some of which are 80 to 90 percent oriented toward the Mexican market. And from what I know, and I don't pretend to be an expert in small businesses—I am an economist dealing with macroeconomic figures more than anything here—those persons or those firms which are tied in to that extent, if they are not capable of turning their businesses to other areas, yes, they are probably in very bad shape at this point and will probably face bankruptcy.

And I think also—the one point I did not make that I promised I was going to—and that was that many of the suppliers, especially in the Calexico area, come from San Francisco, Los Angeles, New York, and Chicago. The suppliers we are talking about, clothing, electronics, and so on, are providing products manufactured in all of the United States and sold in the border region.

But going back to your point, sir, yes, I think there are some who are, unless some sort of help is given to them, are going to go down.

Mr. MITCHELL. You say there is a significant business diversification in those areas? If the person has a retail shop, suits, dresses, shoes, hats, and so forth, and is heavily dependent upon the Mexican trade, in my opinion it would be most unlikely that he could also be involved in some other kind of business. I am assuming there is very little diversification.

Mr. CLEMENT. I know of some individual businessmen in Calexico who are diversified. If you go to the city of Calexico, you will see two or three streets that are predominantly oriented toward the Mexican market. Some of those people own stores there and own stores on the Mexican side. That is a phenomenon that has not been looked at here. Some of them own stores there on that strip there, if you will, and then they own other enterprises throughout the Imperial Valley. I do not have statistical information on that, so I don't know what the splits are there, sir.

Mr. MITCHELL. Well, I must say, Dr. Clement, that I am very depressed, because I don't know where to go. If I follow your testimony correctly, you are saying that there are some forces in effect that will not be changed by almost any action taken by this country—free trade zones near the border, Treasury buying up pesos would not help. So I must say I am grateful for your testimony, but it just leaves me very depressed, because I don't see any area in which we can move at the Federal level, based on your testimony, which would be helpful. Maybe my colleague, who is more astute than I, sees some glimmer of hope. But based on your testimony I would not see any.

Mr. CLEMENT. I opened my remarks by saying I would hope one of the things that would come out of this would be some sort of negotiations, advisory sessions with the Mexican Government once the new president comes in. I don't think anything is going to be done. I don't perceive anything going to be done in the month of November. Afterward I think that there might be some opening. A number of us who have lived on the border for many years have been observing it at close hand, feel there should have been some sort of in place mechanism long ago, and that this in place mechanism would have provided early warning systems to this kind of disaster. At this point, I don't see that we have anything like that.

I referred to the chess game that has been going on. Whatever we do on this side of the border in terms of the peso manipulation and so on I think is going to be countered by some more movements on the other side. So I am not sure that is a fertile ground to pursue.

Mr. MITCHELL. Congressman Siljander.

Mr. SILJANDER. I will rephrase a question to you that I asked of the other gentleman from the State legislature. I asked him, the

trading houses, what will happen with the excess pesos? As I read part of your testimony, there is a $1.5 billion trade surplus. So it seemed to me, unless I am misreading this, there has to be somewhere to dispose of all those excess pesos. What is happening with the pesos? Or is there an equal balance in terms of dollars and pesos?

Mr. CLEMENT. Well, I heard Mr. Ham's testimony, and I would agree with what he said. I think from what I can determine there is also another avenue for the disposal of those pesos, and that is the owners. And this, it has the character of hearsay, but I understand that the owners of the assembly plants on this side of the border have also been paying their employees in Mexico in pesos that they bought on this side of the border, therefore taking advantage of the differential. That probably is illegal in Mexico. But I have talked to Mexican officials about it, and they have no real way at this point of enforcing that kind of a thing. It is not illegal I think from the U.S. perspective. What we do over here is our business. What they do in Mexico, of course, is the Mexicans' business.

I would carefully say this is hearsay. These kinds of mechanisms are very difficult to thoroughly research without a great deal of time and persistence.

Mr. SILJANDER. So would these be part of a format that you would suggest that the Federal Government discuss with the Mexican Government in terms of negotiations back and forth? I guess what I am looking for is more specifics. So far we have heard a great deal of outlining what the problems are. I still lack enough insight into specifics on what role the Federal Government can play. And I am just looking for input from you. You are the experts presumably. You have been studying it for 17 years. I have been here for about 17 minutes. I was hoping you could give us some direction.

Mr. CLEMENT. Part of the direction I have indicated here is that we have a problem—whenever we talk about a problem, we suggest there are solutions. I am not so sure there are solutions. One of the problems we have here in the United States is the problem, as we look at it, of migration. We have had committees wrestling with that one for many, many years. There have been no solutions in my view to that problem. In the same way here we have a situation which indicates that certain businesses have been in a very profitable business, and now the ball game has changed, the nature of the game is probably going to change.

It is changing for two reasons. One is because of the exchange controls that Mexico has been jockeying around with. The other is they have changed the terms of trade between the two countries. Now, I am sure the Mexican Government is going to try to maintain its informal exchange rates that are going to keep the dollars and the pesos on that side of the border. But they may relax, as the latest indications are, those exchange controls so that if the Mexicans are willing to pay the premium for the U.S. dollars they will be free to do so in that border strip, which would be a great deal of help for our people on this side.

But still I think that the sad truth is that we are going to be seeing a redefinition of border trade over the next years.

Mr. SILJANDER. What can we influence the Mexican Government to do?

Mr. CLEMENT. I think what the Mexican Government could do with us is to tell us to the best of their knowledge how they see the problem of the dollars. So you won't have to come and ask me to second guess the Mexican Government as to what they are going to do in terms of exchange rates and in terms of exchange controls. If there were direct negotiation between the two governments we won't have to be second guessing each other. And therefore your committee would have in hand concrete information as to what will happen on the Mexican side and therefore we could calculate the impacts more precisely on this side. This is what I think the negotiations could do.

Mr. SILJANDER. I understand what you are saying, the basis behind any potential solution would be simply dialog between the United States and Mexico.

Mr. CLEMENT. Delete the "simply" and I think you are right.

Mr. SILJANDER. Involving ourselves in dialog.

Mr. CLEMENT. That is one thing that has not been mentioned here today. I also think since we are talking about longrun problems we are talking about longrun solutions. The Economic Relocation Task Force Mr. Piper recommended is something that I recommended in the earlier hearings at the State level. And I think what we really need is to talk to the Mexican Government. To the extent possible they can tell us what their plans are and what their kinds of solutions might be in harmony with the United States. If we are talking about a very distinct longrun problem where they are going to redesign the nature of the game, then we get a handle on who is hurt and who can help themselves on this side of the border and who cannot, and then we talk about longrun relocation plans. That would be the scenario I suggest.

It is a very difficult one to implement. But I do think otherwise we are engaged in a lot of rhetoric.

Mr. MITCHELL I guess I come slightly down on the other side—almost an impossible situation, defying solutions. And yet I would feel there must be something we can do in the short term. Let's say 1,000 businesses are adversely affected by this, and they employed three people each, and we allow them to collapse totally in the next 18 months. That is 3,000 more people out of work. That is a loss of revenue from 1,000 businesses, a loss of revenue from 3,000 people who are working, and the additional cost of maintaining those people—we are not going to see them starve to death, living out in the desert someplace. I come down on the very practical immediate side. It forces me to think in terms of at least some sort of approach to hold folks in place. I don't have it. But I am constrained to think along those lines.

Mr. CLEMENT. When you are talking about, for example, 1,000 businesses, are you talking all the way across the border?

Mr. MITCHELL. Yes. Just a theoretical figure. It may be much more than that. But I named that figure merely to point out the kind of domino effect that would take place if we did nothing and just let them collapse.

Mr. CLEMENT. I think certainly you are aware of the fact that Calexico is suffering more from this than the city of San Diego. San

Ysidro and certain areas of Chula Vista are suffering even more than the city of San Diego as a whole. When you look along the border you find cities like El Paso, Laredo, and so on, are going to be more like Calexico than is the city of San Diego. That is just in the characteristics of the largeness of the cities.

Mr. MITCHELL. Thank you very much, Dr. Clement.

Mr. Cecil E. Byrd, vice president of Community Development, Bank of America, and Mr. Michael Duff, the vice president of the North American Division of the Bank of America.

## PANEL CONSISTING OF CECIL E. BYRD AND MICHAEL DUFF

### TESTIMONY OF CECIL E. BYRD, VICE PRESIDENT OF COMMUNITY DEVELOPMENT, BANK OF AMERICA

Mr. BYRD. I am Cecil Byrd, Mr. Chairman.

Thank you, Mr. Chairman, for allowing Bank of America the opportunity to participate in this hearing and to present our views and certain information which may be of some use to you in arriving at your findings.

Bank of America, since 1968, has been a very active participant in the programs offered by the Small Business Administration, particularly the loan programs for small businesses with a heavy emphasis on loans to minorities and other disadvantaged. Presently we have 1,675 SBA loans outstanding for $115 million, of which some 40 percent are to minority businesses. In addition to our branch officers, we have a staff of 10 credit officers who aggressively seek out viable minority business loans in every banking region in the State. We have been, and probably still are, the largest lender in the SBA's programs.

We had, naturally, been aware of Mexico's devaluations of the peso in February 1982 and again in August and the devastating effect it had on border businesses. We also recalled a similar happening in 1976. At that time our Government offered a special economic dislocation program through the Small Business Administration, and we assumed that in due time, a similar program would be put online to offer some assistance in the current case as well.

On Thursday evening, August 26, 1982, I was contacted by the San Diego District Office of the SBA and was informed of their desire to mobilize the private sector lenders to offer credit at preferential rates and terms to border area businesses that had been adversely impacted by the peso crisis. They informed me that their own response was not yet in place and were unsure of how long it would be before one was announced.

Bank of America saw this as an opportunity to provide a needed service in the area as well as to fulfill our obligation as a leader in the financial community. We were fully aware that many of the impacted businesses did not actually need credit as badly as they needed other solutions to their predicament. We discussed this with SBA but agreed that such a program should be available as a part of a greater plan to address the problem.

We reviewed the parameters of the special economic dislocation loan program of 1976–77 and, perhaps in the interest of expediency, patterned the Bank of America program after it. We agreed to give our loan officers in the field a great deal of flexibility to modify the

guidelines to meet specific needs, but established the following general requirements and the program was approved by 10 a.m. the following morning. It was presented to Mr. George P. Chandler, Jr., SBA District Administrator at that time, who seemed pleased with Bank of America's responsiveness and timely action. A joint press conference was planned for early the following week to let the other lenders and the public know the program.

Generally the program was restricted to only those businesses adversely affected by the peso crisis who could also show reasonable assurance of survival through the use of the loan funds and an ability to repay the debt. We agreed to defer interest payments, if necessary, for 3 months and principal payments for up to 6 months. We also recognized that exceptions should be made on a case-by-case basis.

We agreed that the interest rate should be 1½ percent over the published money center prime rate, currently 11½ percent, at that time 13½ percent. We decided a fixed rate would allow debt servicing capability to be calculated more accurately and was generally acceptable to most applicants even though the bank's normal policy was to use a variable rate. Based upon the 1976–77 SBA program, we set a $100,000 maximum and a 5-year maximum maturity. Again, exceptions might be made in specific cases.

Loan proceeds in this program may be used for operating expenses, to bring long-term debt current, for paying payables and to carry accounts receivable. The money may not be used to refinance other debt which may be at a higher interest rate. In the event of a drop in the prime rate during the life of the loan, the borrower may, of course, pay off the debt and refinance it at the lower rate with no penalty of any kind.

Results of this program are not all in at this time but we estimate we have had approximately 30 to 40 serious inquiries amounting to some $2.4 million in possible loans. Most of the resulting applications are still under consideration but experience leads us to believe that most will not materialize into SBA loans. Three or four have at this time, and several others have resulted in other types of credit being granted under Bank of America's conventional loan programs. Two loans, for a total of $450,000, were made to two peso pack applicants under our regular SBA program and a number of existing borrowers were given deferments and/or revisions rather than additional debt.

Almost simultaneous with Bank of America's program, SBA did announce their peso pack program which was, in actuality, a redirection of their existing direct loan program. It was totally unexpected by us and was more liberal in several ways than our offering. A number of applicants came to us simply requesting that we give them a letter of declination so they might apply for an SBA direct loan. It is not our policy to do this before reviewing a complete application but, as a rule, a decline letter is generally obtainable simply by contacting a number of lenders in a given area.

All in all, the loan program has met our expectations. It has been very important to a rather small number of border businesses, but it has encouraged other lenders to also offer special loan programs and to otherwise assist with the problem by recasting loans and deferring payments. Although the results have been

modest, the program was devised and offered with good intentions by Bank of America and represents but a fraction of our concern for, and service to, the communities we serve.

Again, Mr. Chairman and members of the committee, thank you for allowing me to make this presentation today. I will be happy to answer any questions you may have concerning my testimony.

Mr. MITCHELL. Does Mr. Duff have a separate statement?

Mr. DUFF. No, Mr. Chairman.

Mr. MITCHELL. Thank you.

I would certainly be remiss if I did not commend you, Mr. Byrd, and the Bank of America, for the promptness with which you moved to try to address this problem and for the help you have given, although it appears to be limited to a very small number of cases.

In your testimony you suggested that one of the good things coming out of the action taken by your bank was that it encouraged other lenders to follow the same pattern. Could you be a little more specific. What other lenders have followed the example?

Mr. BYRD. I know of one other bank that has come out with a similar program. I believe it is First Interstate Bank. I think it has also encouraged a nonbanklender, Government Securities, I believe it is—Government-Guaranteed Securities.

Mr. MITCHELL. Then two other lenders in the area?

Mr. BYRD. I believe there are more than that. But those are the two I can think of offhand.

Mr. MITCHELL. You indicated in your statement that you assumed there would not be any serious effort on the part of businesses to avail themselves of what you have to offer.

Mr. BYRD. We believe they generally need something other than credit. Based on the 1976-77 experience with the SBA's economic dislocation program, there were relatively few loans ever granted under that program. We felt the same general conditions prevailed at this time—that we probably would not——

Mr. MITCHELL. Relatively few in this area?

Mr. BYRD. Relatively few, yes.

Mr. MITCHELL. I was pleased to note that you had worked with SBA in trying to attack this problem, and yet apparently SBA moved into its peso pack program without consulting with you; is that correct?

Mr. BYRD. Yes. I think that probably came from the central office rather than locally. I am sure had Mr. Chandler any knowledge of it at the time that we were discussing it he would have told me. But at that time it was our understanding that they had no idea when or if anything would be available. Apparently SBA's central office moved with a great deal of speed. I think this may too have discouraged other lenders from jumping in behind us.

Mr. MITCHELL. I must say that is the kind of thing that does disturb me. And it has no reference to the local effort here. But apparently the inability of the central office to know what is going on, utilizing the private sector, and to in effect—sandbag is not the right word—but to initiate a program that automatically thwarts your private effort I think really does damage in terms of good working relationships over a period of time.

Mr. BYRD. We have worked with the SBA for a long time. We realize they have certain problems because of the workings of government. We were not particularly upset. It certainly could have worked out a little better.

Mr. MITCHELL. It could have been coordinated, could it not have?

Mr. BYRD. I would have to agree.

Mr. MITCHELL. Congressman Siljander?

Mr. SILJANDER. The only question I had was, what kind of policy do you have for the currency exchange? Are you accepting pesos?

**TESTIMONY OF MICHAEL DUFF, VICE PRESIDENT, NORTH AMERICAN DIVISION, BANK OF AMERICA**

Mr. DUFF. Mr. Siljander, if I may respond to your question, our policy with regard to exchange transactions is that, to the extent to which there are two parties outside of Mexico who wish to conduct foreign exchange business and we are able to match those transactions, we do so. Other than that, though, the volume of our dealing has declined very substantially since the imposition of the exchange controls.

Mr. SILJANDER. OK. Thank you. That is all I have.

Mr. MITCHELL. I do have one other question.

You indicated what the criteria were for making loans under your particular initiative. And one of the criteria was the ability to repay of course from current earnings; is that correct?

Mr. BYRD. Well, these would be term loans. We were prepared to defer interest payments for 3 months, principal payments for 6 months, and it would have to be paid out of profits over the long haul.

Mr. MITCHELL. What I am trying to get at is, given the requirement of ability to repay from earnings, were you assuming that the exchange freeze would be solved in some fashion, or that——

Mr. BYRD. That would be part of the credit judgment in granting credit, as to the extent that the business would be dependent upon the ability to make currency exchanges. It would certainly be difficult to see any light at the end of the tunnel at the present time for a business that was entirely dependent upon across-the-border trade.

Mr. MITCHELL. Then perhaps were you assuming that the current earnings of any business that applied for a loan from you would be sufficient to repay you even though the peso problem might not be solved—in the short term, quickly.

Mr. BYRD. We would have to take each one on a case-by-case basis and determine the ability that we can see for a particular business to repay. Generally, the loans were more applicable to the businesses such as those in San Ysidro that were not totally dependent upon across-the-border trade.

Businesses in San Ysidro have the greater San Diego and even Los Angeles areas to draw on. Where you have an isolated community in Calexico, it is almost totally dependent on the business coming across from Mexicali to trade with them. It is very difficult to foresee that alone would help businesses in those isolated communities.

Mr. MITCHELL. That is my point. In actuality, then, those businesses in the two areas you just mentioned were almost totally excluded from consideration.

Mr. BYRD. In Calexico—none were excluded from consideration.

Mr. MITCHELL. I don't mean by you but by the very nature of the business they conducted across the border.

Mr. BYRD. Yes. Calexico was much harder hit because of its isolation, a relatively small community isolated from other U.S. communities on this side of the border. It is almost totally dependent on the trade from a large Mexican center of population. In general, those businesses had a much more difficult time reaping any good from a loan. Most of them just simply didn't ask for a loan; they knew they had problems that were far greater than that .

Mr. MITCHELL. You heard the colloquy between myself and Dr. Clement. I am saying you just cannot let them all go down the tube. Is your bank thinking of some method by means of which it might involve itself in the reindustrialization process in those two areas, helping to woo any businesses in?

Mr. BYRD. We have no plans under way. We would certainly be willing to participate in any program. But as far as having anything at this time, to my knowledge we don't have.

Mr. MITCHELL. It would seem to me over the long haul that you ought to be thinking along those lines, if indeed the local elected officials are beginning to make that effort to change the economic pattern in those border areas—it is obvious that some pressure is going to be exerted on the lending institutions.

Mr. BYRD. Yes, and we are involved in a number of projects over in the Brawley area, nearby to Calexico. There are a number of programs, using the Small Business Administration's 503 programs that we have been involved in, we are considering at the present time. And we do work with those programs wherever they may occur.

Mr. MITCHELL. Well, I certainly appreciate your coming. I appreciate your testimony. Maybe it is just not my day. I am going deeper and deeper into depression.

Calexico, you really just cannot help?

Mr. BYRD. Not very much.

Mr. MITCHELL. San Ysidro?

Mr. BYRD. San Ysidro, I think there is a little more hope for them as far as credit goes, because despite the very location, the very nature of the business community there, they are more diversified than Calexico. We have not written off this community, but the problem is certainly more accentuated in Calexico than it is in San Ysidro.

Mr. MITCHELL. Thank you. I will bounce back in the afternoon sometime.

Mr. BYRD. I hope so.

Mr. MITCHELL. Our next witness this morning is Mr. George Chandler, the Director of the SBA for the San Diego District.

Again I want to thank you for all the help and assistance you have been to this committee in putting these hearings on. Thank you.

## TESTIMONY OF GEORGE CHANDLER, DIRECTOR, SAN DIEGO DISTRICT, SMALL BUSINESS ADMINISTRATION

Mr. CHANDLER. Mr. Chairman and members of the committee, I am pleased to appear before you today to discuss the difficulties faced by small businesses due to the Mexican financial crisis and the actions the Small Business Administration has taken to assist such businesses. We very much appreciate the committee's interest in this matter, especially since the problems are of such a nature that they cannot be solved locally nor just by the Small Business Administration. I feel we are helping each other.

The problems resulting from the peso crisis are impacting U.S. small businesses all along the border and elsewhere in a variety of ways. While the cause has typically been ascribed to the peso devaluation alone, the problems actually are the result of a number of facts stemming from the Mexican financial crisis.

The impact of such wild currency fluctuations can be catastrophic upon American-owned businesses which have traded substantially with Mexican nationals. It is not uncommon for small businesses, especially retail and service industries which are located in border cities, including—in California—Calexico, El Centro, San Ysidro, and others, to generate as much as 80 percent of annual sales from trade with Mexican nationals. The reason that so many Mexican pesos have traditionally been spent in American-owned stores is that American stores can offer a greater variety of luxury and quasi-luxury items not otherwise available in Mexican stores, and at generally cheaper prices for goods of comparable quality.

As a result of the Mexican peso devaluation, Mexican nationals have lost over 75 percent of their buying power in American stores. The devaluation by itself has caused a significant reduction in revenues for American-owned businesses. According to a survey conducted by the San Ysidro Chamber of Commerce, responding businesses reported reductions in sales from 17 percent to 85 percent immediately following the devaluation. The continued wild fluctuations in the peso/dollar exchange rate further exacerbated this situation.

This peso crisis is different from those which have occurred in the past; it is much worse. There are at least two new dimensions.

First, a restriction has been placed on the amount of pesos which can legally be taken across the border out of or into Mexico. The amount is limited to 5,000 pesos, or about $70 at the 70 to 1 rate. Because of this and the fact that the official Mexican exchange rate now has been frozen at 70 to 1 in the Mexican banks, which have now been nationalized, a de facto devaluation has developed on the U.S. side of the border. The de facto rate is changing daily.

Typically, the number of pesos which can be purchased per dollar increases by about 1 or 2 pesos per day, which means that the value of the peso is decreasing daily. Currently, one can purchase about 118 pesos per dollar and must pay about 128 pesos to buy a dollar. Last week, both of these figures were about 5 to 10 pesos lower.

Because of this combination of factors of the 5,000-peso restriction and the disparity and uncertainty in the exchange rates, many American-owned businesses have understandably been unwilling to

accept Mexican pesos in exchange for goods and services until some stability returns to the situation. Such businesses have suffered even further due to the fact that many clients have only pesos with which to make their purchases. But even those U.S. businesses which have been willing to accept pesos typically must suffer a loss on each such transaction, since they normally must pay more pesos to buy back dollars than they received as dollar equivalent from their customers. The loss is typically 10 to 15 percent.

An additional phenomenon which has resulted is that a number of exchange houses has sprung up along the border for the purpose of changing pesos for dollars and vice versa. Presumably due to the large spread in the rates, over 50 exchange houses have emerged in Calexico and another 50 or so in San Ysidro. The market thus created seems at least partially responsible for the continuing decrease in the value of the peso.

The second factor which makes this peso crisis much worse than previous devaluations is that in mid-August 1982, Mexico froze the dollar accounts of domestic and foreign depositors in Mexico's banks. As a result, Mexican businesses, which heretofore were importers of American goods from U.S. exporters, could not make good on their accounts payable. We understand that many American businesses have enormous accounts receivable in Mexico that cannot be collected. By the same token, these Mexican importers no longer have the capability to import from U.S. exporters since their dollar accounts are frozen.

In addition, many American businesses doing business with Mexicans traditionally have had dollar accounts in Mexican banks for the purpose of facilitating their international trade and the monetary exchange attendant to such trade. Dollar accounts of these U.S. businesses, as well as other Americans, were also frozen in August. The only way that Americans are able to withdraw their funds is in pesos at the rate of 70 to 1. Since the pesos must be exchanged for dollars at a rate of about 120 to 1 or worse, a depositor in a Mexican dollar account could expect to obtain only about 58 cents on the dollar, losing 42 percent of his account's value. Thus a number of American businesses which have been adversely affected by the peso devaluation because of their client's reduced buying power were then devastated by the inability to collect accounts receivable from their Mexican customers. Many of these same American businesses were unable to get access to all their own liquid assets since some of these assets themselves were in frozen dollar accounts in Mexican banks.

In response to the peso crisis, the SBA developed the peso pack program. As part of this, the San Diego district office developed a two-pronged program to address problems at the local level.

First, we implemented a special mobilization of district personnel. Under this program field stations, staffed by financial assistance personnel and volunteers from our Service Corps of Retired Executives (SCORE), were established in the affected communities through cooperation with the local chambers of commerce. Press releases and spot radio announcements advised the public of the availability of SBA direct funds for lending and that SBA representatives would be available within the communities for counseling and distribution of loan applications.

Second, we negotiated an accord with Bank of America, which is a primary lender in the border communities, wherein the Bank of America would offer SBA-guaranteed loans at a rate of about 1 percent lower than normal rates. These loans are geared to small businesses which have been adversely affected by the peso devaluation.

The assistance centers were opened in Calexico and San Ysidro, the two areas most severely affected by the peso crisis since they are directly on the border. The assistance center in Calexico was established at the Calexico Chamber of Commerce. The assistance center in San Ysidro was established at the San Ysidro Recreation Center. Each assistance center was staffed with two loan officers from the San Diego district office, and two management counselors from San Diego's Service Corps of Retired Executives. One of the two loan officers at each assistance center was Hispanic with Spanish language capability.

Borrowers are applying for SBA direct loans for working capital for up to $150,000 for 10 years. Proceeds are being used for operating expenses, to pay accounts receivable, to carry accounts payable, and to bring long-term debt current. Management assistance includes counseling of management aspects and problems that businesses are facing and providing special advice relevant to the peso crisis. Management advice has covered a number of areas, including the following:

Liquidation of excess inventory by clearance sales at reduced prices and/or return of excess stock to suppliers; renegotiation of leases on vehicles, other property and equipment even on a temporary basis; review of insurance costs to reduce where applicable; review of owner's withdrawals for possible reductions; reduction of staff or placing at least some of the staff on part time to conserve resources; deferment of accounts payable by suppliers and creditors; redirection of promotional and marketing plans with more emphasis on new approaches to business with customers on the U.S. side of the border, and a number of other areas.

As of November 5, 1982, we have had a total of 343 inquiries by businesses in our district regarding the problems they have had as a result of the peso crisis. Of these, 256 have been given SBA loan application forms and related material. Thus far, we have received back 60 completed applications for a total of $5.167 million. Of these, 57 applications for $4,442,100 were for SBA direct loans, and 3 applications totaling $725,000 were for bank loans guaranteed by SBA. Thus far, we have approved a total of 25 loans for $2.252 million. Of these, 23 loans for $1.577 million are direct loans and 2 loans totaling $675,000 are bank loans guaranteed by SBA.

We have declined a total of 20 loans for $1,024,768 because of inadequate credit. With regard to borrowers who already have loans which preceded this peso crisis, and who have been adversely affected by this peso crisis, we have granted a total of 13 deferments.

Throughout SBA's response to the peso crisis, we have been very fortunate to have received outstanding cooperation and support from a wide variety of other organizations from both the private and public sectors.

For example, in late August, we first contacted Cecil Byrd, vice president of the Bank of America, to see if his bank could develop a

special program to assist in helping businesses adversely affected by the peso crisis. Within 24 hours, Mr. Byrd obtained corporate approval for a special economic dislocation program, involving lowered interest rates.

The San Diego County Local Development Corporation has provided invaluable assistance in financial counseling, loan preparation assistance and loan screening. The contributions of Clarence Pendleton and Art Goodman and their staff at the LDC have been outstanding. The organization receives funding from San Diego City and San Diego County.

We have also enjoyed outstanding support and cooperation from a number of chambers of commerce. These chambers include the International Chamber of Commerce in San Ysidro, the San Ysidro Chamber of Commerce, the USA-Mexican Chamber of Commerce, the El Centro Chamber of Commerce, the greater San Diego Chamber of Commerce, and especially the Calexico Chamber which has been serving as one of our assistance centers.

The mayors and city governments of San Diego, which encompasses San Ysidro, Calexico, and El Centro, and the supervisors and county government of San Diego and Imperial Counties have been a major factor in the success of our programs.

We have also received outstanding support from U.S. Congressmen and other elected officials from the areas affected. The State Assembly of California has been involved in the process, holding a committee hearing to help better understand the peso crisis problems. Also, the Departments of Commerce and Treasury have sent representatives to our border areas to conduct hearings on the peso crisis and get a better understanding of the problems in response to the work done by the task force made up of U.S. congressmen along the four-State border area.

The ultimate solution would seem to require the efforts of a variety of government organizations at the national level.

Your committee, Mr. Chairman, can clearly help broaden the body of information available on the problem and expand the circle of informed officials who are in a position to influence proposed solutions to the problem.

The media has also been instrumental in making the public aware of the problems associated with the peso crisis. I would be remiss if I did not mention the excellent cooperation and support that this district has had from SBA's region IX, from the other district offices in the region, from SBA's western area disaster office, and from SBA's central office in Washington.

The peso crisis has produced a number of difficult and complex problems. The complexity is increased by the continual and unpredictable changes introduced into the situation. The complexity is further increased by the fact that the solution is not amenable to normal straightforward methods, particularly since many of the major actions required to arrive at a solution are not within the jurisdiction of the U.S. Government. Until a more lasting remedy is found, we in SBA, working with the local community, will use our resources and make every effort to assist these businesses to weather the storm.

Mr. Chairman, I will be happy to answer any questions you may have at this time.

Mr. MITCHELL. I do have some.

One of the reasons for this hearing was that, based on the information we received in Washington at our hearing, it appeared that the Texas SBA offices had moved much more quickly to address this problem and had indeed been of much more significant help in terms of making loans than you have in this area.

Why the difference? Why was there such an immediate reaction in the Texas SBA area as opposed to a somewhat delayed reaction in California?

Mr. CHANDLER. I have a view on the delay. I don't believe that we delayed by very much. I think perhaps they were three weeks ahead of us. It wasn't a very significant delay. Of course part of our solution, or part of our assistance I should say, has been in loan deferments, being lenient in this area. And we began that back as early as February when the first devaluation occurred.

With regard to the loan volume itself, it is true that region VI headquartered at Dallas is far ahead of our own volume here in region IX. I think there is an understandable reason for that, Mr. Chairman. I would like to explain that.

In region VI my understanding is that the principal district involved there, as far as lending is involved, is the Harlingen, Tex., district. That district, as I understand it, is responsible for upwards of 90 percent of the entire region's peso pack loan volume. The reason for that, as I understand it, is that there are upwards of a population of around half a million people that are supported by that particular district on this side of the border.

On the other side of the border in Mexico there are upwards of about a million and a half Mexicans. The closest major city to the Harlingen area is San Antonio, which is two hours away. If you compare that with Calexico, which is about 2 hours from San Diego, the population is 40,000, including Calexico and El Centro, and on the other side of the border the population is about 800,000. And there are approximately 600 businesses in the combination of Calexico and El Centro, whereas in the Harlingen area on this side of the border there are approximately 7,000 businesses.

Now, back in 1976, when the previous peso devaluation occurred, in San Diego I believe we made approximately 13 loans for roughly around $500,000. In the Harlingen, Tex., area I think they did an order of magnitude greater than that. So, if anything, it is to a certain extent to be expected, I believe, sir.

Mr. MITCHELL. You did an admirable job in getting the word out through press releases and other mechanisms that help is available. And apparently there was a relatively high rate of interest in getting that help demonstrated by the fact that you got some 343 inquiries after you got the word out. You gave out background material to 256 of the 343, and yet you received back only 60 completed applications.

In your opinion, what caused that high interest from 343 to finally dwindle down to just 60 completed applications coming in? Why do you think that that high interest in the program was suddenly diffused?

Mr. CHANDLER. My own opinion is that we will receive more applications. In some cases it takes borrowers some time to prepare the application material.

However, I think in any case, while a borrower, a business who has been affected by the peso devaluation, would have an interest to the extent of coming in and talking to our counselors, picking up the application and material, et cetera, he in his own best judgment, being a good businessman, may decide he is better off not applying for a loan at this time. That would be my own assessment.

Mr. MITCHELL. And he would feel that it would not be in his best interest to apply for a loan because of the interest rate he would have to pay perhaps?

Mr. CHANDLER. Well, I believe that a loan for any person, any businessman, is a burden because he has to service that loan. And we have had a ground rule ourselves that if we can make a loan that will help a business, particularly in this situation, we are going to make it. And if a business applies for a loan which in our business judgment, after the businessman has made his best case, if he cannot influence us to the contrary, if we believe the loan will not be a help, but in fact will be a hindrance to him, we will not make it.

Obviously, the higher interest rate loan is more difficult to service than the lower interest loan.

Mr. MITCHELL. I was thinking, here you have a very strange situation in which the Bank of America was prepared to make loans at around 13, 12 plus 1½, something like that, 13½. You have this agency of Government, the SBA, willing to make loans at a 1-percent higher rate. Under the present program your loans would be at 14½, wouldn't they?

Mr. CHANDLER. Yes, sir, that is correct.

My understanding of that issue is that the economic dislocation program that the agency established I believe beginning in 1977, by coincidence during the aftermath of the previous large peso devaluation—and was dropped at the beginning of fiscal year 1982, that the reasons for dropping that program were that since its implementation that the number of businesses, the number of areas, and the number and kinds of cases that have existed that have applied for the benefits of that program have grown considerably. I understand that in a number of cases where SBA was exercising its best judgment in an attempt not to declare a certain area a disaster, which might have been out of the bounds of the original intent of that legislation, such precedent was established in that program that there was actually no end in sight for the kind of situations that eventually qualified for the use of that program.

Mr. MITCHELL. I have heard the arguments against the continuation of the program. But my point is, here you have an agency of Government specifically set up to help small businesses, and it ends up offering an interest rate a point or a point and a half higher than the private sector would be willing to do. It just seems pretty ironic to me.

I am not expecting you to answer that. But it just does seem rather strange.

Suppose the old program had been in effect during this current crisis, offering an interest rate of much less than 14, 14½. How many of the 20 loans that you declined do you think would have not been declined?

Now, I am assuming you turned some of them down because you assumed they simply could not pay an interest rate of 14, 14½ percent. What I am saying is, if you had a lower rate, would less than the 20 have been declined?

Mr. CHANDLER. I would have to review the situation a little bit more closely. However, I think that at least a very large percentage of those 20 declinations would still have been declined. The reasons for those declines I have summarized here and it may be of some interest to the committee.

The lack of repayment ability and the categories under that, and the numbers of loans we have declined, are as follows, and these numbers won't add up to 20; they will go a little bit above 20 because some businesses had more than one reason for declination: Applicant had losses 2 previous years plus the current year—there were six of those; the applicant had losses last year plus the current year—there were five of those; the earnings before withdrawals were less than $3,000 for the last 2 years—there were four of those; the repayment based upon the projection was unreasonable—there were two of those; repayment was not reasonably assessed based upon past earnings—there were three of those.

Under the category of disproportionate debt to net worth currently existing, before the application, there were five companies that were actually insolvent at the time of the application. The net worth was less than $1,000 in two cases.

The net worth was less than $10,000 in two cases, with a total debt to net worth—a debt 10 times the net worth.

One business had actually filed bankruptcy at the time of the application.

So I think in practically all those situations, even had there been a lower interest rate, it would have been difficult to have reasonably made a loan. As I said before, it would have failed our test of actually hurting the business rather than helping it. And that is why we didn't make the loan, sir.

Mr. MITCHELL. Just one last question from me.

If you declined 20, how many did you approve?.

Mr. CHANDLER. We have approved 25, sir. There are 3 still in processing, and there are 6 that are awaiting additional information before processing can resume.

Mr. MITCHELL. Of the 25 that you approved—I am trying to get at what your rationale is with regard to the ability to repay the loan—are you assuming some sort of reasonably fast resolution of the peso problem, or are you assuming those businesses, despite the fact that they were impacted negatively by the devaluation, are showing sufficient earnings right now.

I don't know which one you chose because, if you chose the latter, all the witnesses have indicated they expect the situation to deteriorate further. So it means that even though this company might be able to pay right now, despite the impact, if the situation deteriorates further then the ability to repay will deteriorate, will it not?

Mr. CHANDLER. Yes, sir.

Let me try to answer that.

We have been very flexible in our assessment of the projections that the businesses are required to provide us in making applica-

tion. By the same token, we have worked with these businesses in an attempt to help them help themselves, and they have helped themselves a lot in making structural changes in their businesses, so that in some of these management areas we have talked about, in order to redirect their business to a situation which is at least survivable until this crisis hopefully eventually improves and where we see there is evidence that there is hope, even with a rather pessimistic future, we go with the loan.

Mr. MITCHELL. Thank you.

Congressman?

Mr. SILJANDER. Mr. Chairman—the only question I had—do you see any other programs that this committee could be researching that would be of assistance to you in this specific area, concerning the peso devaluation?

Mr. CHANDLER. I think that there are certainly no easy solutions, as all the previous witnessses have said. I believe that there are a number of beneficial ideas that have been discussed this morning, not the least of which is I think to get a better understanding of what the future plans are on the other side of the border.

With this in hand, I think that we as a community and as a country can make our own plans and our own fall-back plans for the future.

There are some things that have been discussed with regard to how to aid businesses in exchanging their pesos. I don't know what the answer is there, but it is certainly worth perusing, I think.

Mr. SILJANDER. Thank you.

Mr. MITCHELL. Thank you very much.

We will resume at 2 o'clock, at which time we will hear from officials and business persons from the Calexico and San Ysidro area. We will resume promptly at 2 o'clock.

[Whereupon, at 11:45 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

Mr. MITCHELL. Good afternoon, ladies and gentlemen.

We began the hearing this morning at 9 a.m. Obviously the House Small Business Committee is deeply concerned about what is happening to small businesses as a result of the peso devaluation. This morning we heard primarily from various elected officials and representatives of the State, those in banking, and experts with specialized knowledge of the problem.

This afternoon's session will consist of six panels. We will hear from the local officials from Calexico and other places, and also from businesspersons themselves. We thank you for coming. I understand some of you have driven as much as 2½ hours to be here, and we are most grateful for that.

Again I want to express my thanks to the staff of the House Small Business Committee which did the initial preliminary work to put these hearings on, and my particular thanks to Congressman Siljander, who took time to be with us after going through a very busy campaign. I am grateful to everyone who has made this possible.

The first panel will consist of Mr. J. Leonard Speer, chief of police for the city of Calexico, Mr. Patrick R. Hashem, the president of the Calexico Chamber of Commerce, and Ms. Carmen Rojas, general manager, Calexico Chamber of Commerce.

Ladies and gentlemen, you may proceed in any order you desire.

## PANEL CONSISTING OF PATRICK R. HASHEM; J. LEONARD SPEER; AND CARMEN ROJAS

### TESTIMONY OF PATRICK R. HASHEM, PRESIDENT, CALEXICO CHAMBER OF COMMERCE

Mr. HASHEM. Thank you, gentlemen. I would like to bring some basic figures and facts about Calexico. I am the president of the Calexico Chamber of Commerce.

Calexico in the past has been on a continuous steady up-pace in total retail sales. We have a population of only 14,000 people and 340 retail businesses in our city.

Just to give you a real brief idea, from the period of 1977 to 1978 our retail sales jumped $14 million. They were at $62 million in 1977. In 1978, they went up to $76 million; 1979, they jumped another $18 million, up to $94 million. In 1980, we jumped to $113 million. For fiscal year 1981, Calexico's total retail sales were $138,086,000 for only 340 outlets.

Since the devaluation, on our last figure, sales have dropped tremendously. If it continues at the same pace, we should be over $22 million off for the total fiscal year.

There have been approximately 40 to 45 businesses since the devaluation which have closed their doors.

Through our local unemployment office, applications prior to the devaluations for unemployed people were averaging eight per week. After the devaluation, due to the hard impact we faced, people were laid off from their businesses, from their jobs. The unemployment rate was averaging 150 applications per week right after the devaluation.

In the last 2 months of August and September for the city of Calexico alone—and I might add the total Imperial County benefit payments last year was approximately $21 million for unemployment—August was $2,406,267 alone; the month of September, $2,452,392. So we do have a tremendous impact.

We have money exchange houses that are opening at random, due to, I guess, that you cannot deny anybody a business license.

Our basic problem is we need assistance some way, any way, to relieve the problem of the frozen dollar in Mexico. We face a situation where the little town of Calexico cannot survive without Mexico. We are dependent, up to 95 percent of all our sales are from Mexico—a town of over 800,000 people across the street. When you generate $138 million in retail sales, you know it is not a city of 14,000 people doing it.

Another problem is we are facing a situation now that we cannot meet our commitments to our suppliers, because we are having trouble getting our currency exchanged from pesos back to dollars. We are looking for some assistance. We have approached SBA for the assistance of low-interest-rate-type loans. SBA's program is $200 million, I believe, but the interest rate was 14.75 percent, to

which any normal businessman would say how can you pay the loan back if you do not have money coming in to begin with. So it did not help us in any way. I think there were about 75 applications taken in the Calexico office, but only one or two were returned—you can go to the bank and get 15 percent.

Now, we feel that if we do not have something done between now and Christmas, there will be more than 40—we probably anticipate 80—business which will close because everybody is looking for their Christmas rush, and they are going to be dependent upon that rush to try to keep their doors open.

It basically comes right down to this. We have proposed a Federal exchange house to be opened where, if we took the peso at the going rate of 70 to 1, we could deposit pesos in some institution that would honor them at 70 to 1, for example the Federal Government, and in turn the Federal Government can pay back Mexico for goods and services and oil we buy from them in their own currency, and it would relieve the problem for us.

There are hundreds of ideas. It just seems that getting the solution is the problem. But I can guarantee if something is not done for the assistance—and I am sure San Ysidro will be in the same position—if something is not done quickly, Calexico will become a ghost town.

Basically that is just about what I have to say.

Mr. MITCHELL. Thank you.

Mr. Speer, please.

## TESTIMONY OF J. LEONARD SPEER, CHIEF OF POLICE, CALEXICO, CALIF.

Mr. SPEER. I am Leonard Speer, the chief of police for the city of Calexico, and I am representing our mayor. I want to cover some of the impact that the city government has been subjected to due to the devaluation of the peso.

In a comparison of the gross sales tax revenue collected last year, October 1981 in comparison to October of this year, we are 47 percent below last year.

The city has taken numerous measures to encourage shoppers into Calexico. One was 2-hour free parking. Our revenue from the parking meters has been reduced—July 30, 1982, we brought in $13,235. This past month, October, since the devaluation, instead of the $13,235, we brought in $1,585. A tremendous reduction, just in the meters themselves.

Since the devaluation they have increased from 19 original money exchange houses to 62 money exchange houses, a matter of paying a $25 per quarter permit fee, meeting the building code, and having an established business, is the only criteria necessary for this. Consequently, these exchange houses have caused a tremendous impact on my police department. In order to combat this, we are having to take measures in regard to the business licenses themselves.

Mr. MITCHELL. What kind of impact?

Mr. SPEER. Such as the police units themselves have to devote the majority of their time around this area of all these business houses on account of the large influx of money, the large bulk of

moneys coming into these exchange houses, consequently leaving the rest of the city sparsely covered. If this continues, we are going to have to have more police, more cars, more equipment. We are addressing this at a subsequent meeting coming up next week.

The sparse business downtown has caused the businessmen to solicit on sidewalks in order to try to induce shoppers to come into their stores. We have a city ordinance against operating without a money exchange license on the streets. We in law enforcement have been enforcing this. However, now we find a lot of the businessmen are stepping out onto the sidewalks. They have a money exchange license now. However, they are soliciting on the streets.

The city recently passed an ordinance prohibiting any soliciting on public sidewalks, rights-of-way, and streets. We have tried to cut down the tremendous influx of solicitation on the streets. This is affecting our business, our taxis. They hover around the Greyhound depot to try to take clients away from each other. This ordinance hopefully will at least make it more tranquil on the streets. But it is forcing the businessmen back into their stores, and making it a lot rougher for them to pay their bills. They have lowered their prices, they have done a lot of things to try to encourage shoppers.

There is a consideration that is going to be addressed next week by the city council with regard to changing the criteria for qualifying for money exchange licenses, so that we will not have this continuous opening of money exchanges throughout our main streets, our business area there in Calexico.

This is the monetary impact it has caused the city government of Calexico. These businessmen have been there for many years, they have relied—the president here of the chamber has said 95-percent on shoppers from Mexico. In law enforcement we have tried every way to encourage those shoppers. Still, the income is a good 47 percent down on revenues collected.

Mr. MITCHELL. Thank you.

## TESTIMONY OF CARMEN ROJAS, GENERAL MANAGER, CALEXICO CHAMBER OF COMMERCE

Ms. ROJAS. I want to speak a little bit about the same money exchange businesses.

Legally there were 22 of these in August, when the devaluation first started. In October there were 27 more business licenses issued. Now there is a total of 62. As you can see, we do not know when this is going to stop. Actually, though, it is not 62 businesses, as Chief Speer was saying. Every business in town almost, 95 percent of them, are conducting themselves as money exchange businesses, just so they can pay off their operating expenses. He has just told you the problems this has caused.

The dollars that they are getting to pay off these pesos that they are getting are coming from agricultural workers and persons collecting from unemployment. Calexico is a small community, and these are the people that have the dollars. Most of them reside in Mexico, in Mexicali. So Mexico has just opened up their own money exchange businesses trying to capture some of these dollars last week, and again the same dollars are getting spread so thin

they are not any good for anyone in particular, if you consider there are over 300 businesses dividing these dollars, along with the money exchange businesses in Mexicali doing this, too. So it is not even enough to handle the operating expenses now.

The high rate of exchange per dollar creates friction with the people from Mexicali, and they are our consumers. Their buying power has gone way down. A year ago it was 25 pesos per dollar, and now it is 125 if you want to buy a dollar. So the only thing that we can do is wait until December 1, when the new President of Mexico comes in, and everybody seems to think there will be a beginning for some kind of a solution. But it is only a beginning. Most estimates are it would take 5 years conservatively for Mexico to get out of whatever it is in right now. The problem here is going to be how to weather those 5 years, particularly the first 2 years.

I have some solutions. The first one of course is to get the Mexicali customers back. Their government is telling them that their peso is worth 70 per dollar. So the closer we can reach that rate, the more those people will come back and shop. Mexican industry has been hardhit by these controls set on their currency and the dollars. They are not able to furnish groceries, foods, or clothing or appliances for all of the border area of Mexico at this time, and it will probably take them 2 or 3 years to do so. So the market is there, because the people who are buying in Mexico are not going to have to buy in the United States unless these restrictions they put on imports are withdrawn. But I do not think they will. It is not the right time right now. So the buying power is there, the people are there. But we have to make it attractive for them. It has to go as close to 70 to 1 as possible.

The first thing we need are quick solutions for our businessmen, loans at a low interest rate if possible before December. I know it is almost December. But this will allow them to be able to buy the merchandise for the Christmas season. And they need a long time to be able to pay them back.

There has to be some kind of Federal intervention for exchanging pesos for dollars at some level. Most of these people are complaining. I understand the SBA is supposed to be counseling them on management. This is a crisis we have in Calexico, and nobody has received any counseling yet, as to whether they should take a SBA loan, or if they should keep their business open, or what they can do to reduce their operating expenses.

Another thing we have to look for is not to have all our eggs in one basket, and to try to develop industry and tourism in Calexico. I have been contacted by at least one government official in Mexico. They are afraid they might lose some of the assembly plants they have in Mexicali, and they are interested in opening them up in Calexico if something could be worked out with green card workers. That is the labor force from Mexico that would come to Calexico to work at the Mexican wage. It has been done in some free trade zones. It would also help us in the Imperial Valley with unemployment.

That is all.

Mr. MITCHELL. Thanks to all three of you.

I was very pleased to hear from the chief of police that the council is going to take a look at this proliferation of money exchanges.

I think you indicated if somebody wants to go into that business, there is nothing to stop him. On the other hand, it would seem to me the more they proliferate, the worse your problems will become in Calexico. I would just have to assume under the powers given to a local political jurisdiction, that some remedial action could be taken to prevent any further proliferation. I hope that does occur. Whatever action you take on this end can only be a partial solution, because you indicated on the Mexican side they are going to build up their own exchanges. But I think that kind of growth we have seen in these exchange branches is not very helpful. And with no end in sight, it almost guarantees that your city is going to become a ghost town. Obviously I cannot interfere with the problems of local government. But I am glad to see that somebody has decided to act on this.

The critical period between now and Christmas, when people would need money to buy their stock—if we go and make a plea to the national office of SBA to come up with some kind of crash program to get you through this, more than likely their response is going to be, well, there is no guarantee that the customers are going to come back, they may come back for Christmas, then they will drop out again. Why should we invest money in these businesses when there is no real assurance that the same level of customer participation that existed prior to the devaluation will again be achieved?

How do we respond to that argument? We heard that in testimony this morning. In fact, one gentleman suggested this morning that the businessmen along the border knew the risks they were taking, they know these kinds of problems occur. I am just quoting him to some extent. And it is just a risk they took, they lost it, and there is nothing more they can do. How do I respond to the head of SBA when I tell them just give us enough to get them through until Christmas, so they can buy the stuff to sell, but we cannot give you any guarantee after that?

Mr. HASHEM. I think you would see in Calexico, they are not fly-by-night merchants. They have been there for years and years. I am running a business myself right now. I am a manager of Greyhound Bus Lines, but it has been in our family since 1949. I think probably 80 percent or 85 percent of your downtown merchants were born and raised in Calexico. We are not looking for a fast or free buck. We are just looking for something to keep ourselves going, to weather the storm out. With the new president coming into office, possibly in 1 year, 8 months, he might make a complete change of his country. And we still feel, we have been through three devaluations, but we have never faced a problem of the frozen dollar, and it cannot continue to stay frozen. Something has to break loose. We are willing to take that risk. We have to take some kind of gamble. We might have to just close our doors today, and start joining the unemployment line for $2½ million a month. Calexico alone will pay out more in unemployment than the whole Imperial County.

Mr. MITCHELL. Please understand me. I am playing the devil's advocate. I am totally sympathetic with your plight. Frankly we are here trying to get some weapons to enable us to fight on your behalf.

Ms. ROJAS. There have not been many devaluations in the past, and after the ones that have been, within a month after the devaluation Mexico has increased its prices a third and also increased its wages at least 30 percent. And 3 months later another 30 percent. This is the first time it has been completely different, where the dollars and the wages have been frozen, and where there have been restrictions as to taking currency across the border. It has never been as exaggerated as now. And nobody, whether a local businessman or somebody who came from somewhere else, could have foreseen this happening.

Mr. MITCHELL. Congressman.

Mr. SILJANDER. Captain Speer, what type of regulations are there now on exchange houses? You mentioned they needed a license. Is that all that is required?

Mr. SPEER. Yes. They need a money exchange license. They make application for a money exchange license, it goes to the city planning to insure that that business meets the building code for the State of California and the city of Calexico. And if they meet the building code they are eligible for a money exchange license. And all they have to do is pay $25 per quarter for the permit.

Mr. SILJANDER. All the 62 that are now in your town, is that all they had to do?

Mr. SPEER. Exactly right.

Mr. SILJANDER. Do you feel that more regulations would be helpful, or would that simply create a black market for exchange?

Mr. SPEER. Well, if we impose more regulation on money exchange houses then it reflects on permits for everything else. The city is going to address this this coming week. There are several alternatives, but there must be a justification. There is an alternative of increasing the permit fee from $25 say to $500. These are going to be addressed this coming week, and hopefully we will do something to eliminate the fast and growing business of money exchange houses so the city of Calexico down the road a few months from now will not have just a bunch of carcasses of closed money exchange houses.

Mr. SILJANDER. Thank you.

Mr. Hashem, we had a professor of economics, Dr. Clement, testifying earlier. He felt that for 17 years, studying the border of Mexico and California, and the problems to and fro, that he felt it is a long-term crisis, not a short-term problem. He did not feel that short-term assistance would work. At least that is what I inferred from his statements. I may be wrong on that.

Assuming that premise is true, what would lower interest SBA loans—you said 14.75 are too high, obviously that is certainly too high to make any meritable approach in dealing with low-interest loans. Assuming you agree with that whole perspective—assuming he is correct and it is not a short-term problem and rather a long-term crisis, what would lower interest loans help now? And to you, Ms. Rojas, between now and December, is this not just putting a Band-Aid on the whole situation at a cost to taxpayers all over the country?

Ms. ROJAS. It is. But it is also survival of a city. Calexico is a small community; it is the American dream. Businessmen have started these businesses from nothing, and the majority of the reve-

nue is from sales taken from these stores. If you do not help them, you are killing an American city. So it is not looking at all the taxpayers first of all. It is going to help us get through December, and from then on things might get better. It will take a while for them to pay back the loans. But you have to see they are going to sell a lot in December. They may not have the sales they had last year, but people will still buy in December. If they can just survive through December, they will be able to continue in January and make a slow comeback. But they will pay the money back.

Mr. HASHEM. It is like putting a Band-Aid on cancer. But I do not agree with this gentleman in the sense that he is talking a long, long term like 15, 20 years. I do not agree with that. I think if you look back at the track record and performance of Mexico itself, there have been two devaluations in this year. But when was the last devaluation? In 1976. It seems like every time a President leaves or comes into office, something drastic happens to the country. Now, it seems to me, my personal opinion, that the new President, in order to create himself as a hero to his people, is going to have to do something and do it fast. They are in the same position we are with the frozen dollar.

If they can weather this thing out for the next 6 months or through Christmas, because we have already been at it for 2 months now, they are going to make it. It is just a matter of giving us some money to purchase our supplies, to pay our debts. Because it is through the news media now that it has been found that all suppliers are cutting off all credits to border towns, because, "I do not want your peso, because that is all you have."

Before you will see a happy city again, it will probably be close to a 5-year period. But if we can get the loans and stay above water through Christmas and the first of the year, personally I think we can make it.

Mr. SILJANDER. I was told—correct me if I am wrong—that in your town, Calexico, the merchants are experiencing a 30- to 40-percent drop in sales. So I am a little confused as to the need for obtaining more merchandise for Christmas, if they are attempting to rid themselves of what they have.

Mr. HASHEM. Right now we are making any attempt it takes to get the shopper back across the border. As the chief mentioned, the city has given away free parking for 60 days now, we are going on a 90-day program now. Maybe the merchants in a sense are happy with a smaller margin of profit than they were. Instead of making $20 on an item, things are getting to the point where $10 looks better now. That is where you are seeing your sale items.

We have spent through the chamber of commerce for this year alone I would estimate close to $10,000 in advertising in Mexican papers trying to explain to them we see their problem, we are with them all the way, and we will continue to take their currency in our town, because it is our livelihood. We have to, or we might as well close the doors.

Mr. SILJANDER. One last question, if I may, to Ms. Rojas. You mentioned SBA advice would help. Of course being on the committee, we would be concerned if the SBA has not been helpful up to this point, or do you feel the peso package is something that would not be helpful? I am confused. I was under the assumption that the

SBA in this area was doing a reasonably good job with the resources they have available to them. Is that correct?

Ms. ROJAS. Yes, I believe they are. But most of the businesses in Calexico are being affected. Some are very small, some are medium. They are different. It is a variety. Every person is hit, whether it is a lawyer, a doctor, anybody, their revenue is being hit. So the first thing we have to do is find out if these people are asking me, "What is wrong with my business? Why can't I pay my operating expenses?" They do not know. Most of these people have not received college educations. They are self-made people. So when they confront a crisis—we do not know what to do with it, and we are supposedly better educated than some people. How do they know what to do with it? They cannot compare it to another community, they cannot envision something bigger than Calexico. They are frustrated. If somebody was there from the Government helping them and offering advice, some of them do not even know when to pay their taxes. They have to get this advice from other people. That is the purpose of the SBA. I think they should send somebody there just to talk to people and advise them, a little bit more of the personal touch. They are hurting, and I think they would appreciate it.

Mr. SILJANDER. Mr. Chairman, I do not know if I am speaking improperly, but I certainly think this is an area we should get involved in as much as we can, at least through advice, if nothing else, to help the city.

Mr. MITCHELL Yes. I am a little disturbed by what you said, Ms. Rojas, because earlier we heard testimony from the director of this district of the Small Business Administration, and I think he mentioned that on one or two occasions he told the businesses something about their personnel and so on. You say that has not been done in Calexico?

Ms. ROJAS. It has been done. But it is one person with all the businesses in Calexico.

Mr. MITCHELL Mr. Chandler, could you point out what you have done up to this point in Calexico, and what kind of resources you have to do that with.

Mr. SILJANDER. And what can we do to help you.

Mr. CHANDLER. I would be glad to. I am a little bit surprised to hear Ms. Rojas say that, because we had two of our SCORE counselors in her facility from September 7 for the next 2 weeks. There was a lot of publicity indicating they were there. We had a management assistance overseer from my office, in addition to that, for at least 3 days of the 2 weeks. We had anywhere from two to three people there. Plus we had two of our loan officers for I believe the full 2 weeks.

Toward the end of that period of time, we received complaints from our SCORE counselors that they were there all day without anyone coming in to see them. That was toward the end. At the beginning there was much more interest.

We decided it was inefficient and ineffective to leave SCORE counselors there with nothing to do. Since they themselves complained about it, we then brought them back. We now have an agreement with the Calexico Chamber of Commerce that when businesses ask for assistance, they are to keep track of that, and

when it makes sense for us to send somebody over there, we will send someone over there. In addition to that we have regular circuit rides. So I am surprised she said that. I am prepared to send SCORE counselors over there at the drop of a hat and have done that, as well as people from my own office. And I will do that tomorrow morning if that is an appropriate thing to do.

In addition to that, we had the Calexico Industrial Development Corp., which is an SBA-certified development company, I think the very first weekend of the peso pack program, provide a seminar for small businesses that had been affected by the peso devaluation. We supported that.

So I frankly am very much surprised at Ms. Rojas' testimony. It may be because she is new herself and is not aware of this.

Ms. ROJAS. I would like to say this was in September. The devaluation was in August. A lot of businessmen saw the SBA people as offering more loans. They kind of waited to see if the situation would improve by itself as it had in other times. Right now is when they are hurt, not in September. They are hurt right now. Right now is when they need courage and help.

Mr. MITCHELL. As I understand it, anyone who needs help can go to the chamber of commerce, and as soon as, let us say, you had six people, then you would contact the SBA under this new arrangement.

Mr. CHANDLER. That is the agreement we have.

Mr. MITCHELL. And you would send somebody in there.

Mr. CHANDLER. Yes, sir. I talked to Martha Gonzalez of that office at least on a weekly basis and asked if there was anybody needed. I was told no. I will send somebody there to be there permanently if that is what the need is, and I will start that tomorrow morning, if that makes sense.

Mr. MITCHELL. Fine. Let us try this arrangement and see if that helps out with your situation.

I know what you need. And believe me in my heart if I could, I would say here it is. The jurisdiction of this committee is limited to the SBA activity. Obviously we cannot go in and tell Treasury what to do. Nor am I on the House Foreign Affairs Committee, and we cannot be working those angles. But I can assure you that we will follow up as soon as I get back to Washington with correspondence to the Secretary of the Treasury pointing out what the dimensions of the problem are and asking if they can begin to address the problem that you raised.

I do not know where we are on unfreezing the dollar. My impression is everybody is in a holding pattern just waiting for the change of administration in Mexico. But there must be something else we can be doing there. I do not want to mislead you to suggest this committee has the authority to get into some of the money problems that you alluded to.

Thank you very much.

We have a number of business persons here from Calexico, and we are going to hear from them in two panels. The first panel will consist of Mr. Phillip Heald, Imperial stores; Mr. Charles Gronich, Garlan's in Calexico; and Mr. Hector Najera, Crown Distributing Co., Calexico.

Gentlemen, thank you very much for Congress to be with us. This is a very painful experience for me, because I always like to see a problem and solve it immediately, saying this will be done tomorrow morning. But I just don't see that happening other than in terms of maybe some stepped up SBA activity.

Proceed as you will, please.

## PANEL CONSISTING OF PHILLIP P. HEALD; CHARLES GRONICH; AND HECTOR NAJERA

### TESTIMONY OF PHILLIP P. HEALD, IMPERIAL HARDWARE CO., CALEXICO AND EL CENTRO, CALIF.

Mr. HEALD. I am Philip Heald of Imperial Hardware Co. We are a chain; small-sized chain of about 300 employees. We have 15 stores. The one that was the largest store in volume is in Calexico.

Our employment at that particular store is currently down to about 37 employees. A reasonable projection at last year's business rate we would probably in that same store facility had something like 80 to 90 employees. So we have done a lot of cost cutting to see to it that we do weather the storm that we know is well underway there.

A question being addressed by the last panel was what confidence the businessmen have, what assurances they could offer that the business will return to Calexico at some future date that would justify even thinking in terms of borrowing money to cure the problem, because if it is a bad bet, why pour more money into it.

The fact is that until recently, both Mexicali and Tijuana were very much dollar-oriented economies, and very much a part of our economy on this side of the line in terms of logistical flow of materials. The highway and rail transportation between the mainland of Mexico and Baja, Calif., is poor to say the least. Most of the goods sold on both sides of the border are flowing in from the United States and from other foreign countries.

Those 800,000-some people down in Mexicali do have substantial wealth, much of which was earned in dollars prior to this move by the Mexican Government to convert their dollars into Mexican dollars or pesos, or whatever you want to refer to them as.

And that was the tremendous shock, not the devaluation. Many of these people, as I mentioned, were earning their income in dollars and had accumulated estates that consisted largely of dollar values and so forth. And now all of a sudden they are forced into a situation where their entire wealth is expressed in pesos, and the logistical flow of goods and services is to be paid for in pesos that have to be replaced with dollar goods. It is an impossible problem down in Mexico. It is one that Mexico is going to have to cope with.

In the meantime, that community is not going to dry up. Those people have needs. They have long-established business relationships, the customers down there, with the businesses across the border in Calexico and on north.

So it is my very strong feeling that the demand is there, the basic wealth is there, and the way will be found that the business will come back.

The most difficult thing has been the making of a virtually worthless currency out of the peso. It has a value at today's rate,

people have mentioned 120, 125, and so forth to the dollar. But does it really have a value? It doesn't when so much of the economy must have been on the dollar, and there is no facility for the exchange of the peso.

So the businesses there—and you have heard of all these exchange activities—basically are not able to find an economic parity between one side of the border and the other in terms of trade, because one is a frozen currency.

I know you are not the banking committee, but the banks have seemingly abdicated their responsibility to businesses to provide an exchange facility. And there has been no offer for effective assistance there. Perhaps somehow or other I know the SBA does get into loan guarantee programs with banks, and perhaps there might be some working relationship between SBA and the banks to facilitate an official exchange that would pool all the border locations, in effect.

What we have seen in Calexico is an attempt to maintain a rate that was somewhere near this artificial rate that Mexico announced, this fictitious rate of 70 to 1, which means nothing to anyone anywhere. It has no validity in terms of values on its side of the border in goods or services—it is purely a fictitious rate announced.

As a result, the first effort the Calexico merchants made to stick to that rate caused Calexico and other smaller border locations to be flooded with pesos that people were dumping from places that they had to pay a higher price in terms of pesos for the dollar.

And so they were dumping them in our community. Well, as our price has gone up to be closer to San Ysidro's price or Brownsville's price, now that we are at so-called competitive rates at the 120-level, we have seen a dryup of pesos in the community. And that alone is going to eliminate some of these exchange businesses.

So this is a little bit of after-the-fact economics we have seen at work.

I would like to kind of lay that aside with that one suggestion, that something between banks and SBA possibly be worked out to effect a national exchange on this side of the border that can be facilitated through banks and with banking regulatory acts behind it, not this harem-scarem thing with everybody with $25 being able to get in business.

The serious concern that my company has had, and we are not alone in this, is that we have been operating in that community since 1917 with our store there. We have enjoyed a good business and a growing business over the years. We have established long, long-term credit relationships with actual first, second, and third generations of families down there.

And our credit experience, we carry our own accounts, issuing accounts to people in Mexico, has actually been somewhat better in terms of credit losses than our credit experience in the United States. Out of a total of some 35,000 accounts, we have had at times as much as close to 10,000 accounts in Mexico. And most of those people in any kind of reasonable economic climate pay like clockwork. They went through the 1976 devaluation, and we had a little bit of falling behind on those accounts. But the experience was that

over a period of time they caught up, and our loss there was not substantial from the devaluation.

This time it seems to be a different story. We paid income taxes as a business last year, as a corporation based on sales on credit, and we have that extended credit down there. Since this devaluation, and particularly the August 13 freeze on the conversion of pesos to dollars, we have seen a geometric expansion of our delinquent accounts. We have $3½ million of current accounts receivables—and we are very careful with our extension of credit. We are a quality business and we have been asking large downpayments, and examine the credit carefully to see the people had the ability to repay, and that is part of the reason our experience has been good.

Yet since this recent upheaval, we have seen our 30-day account list, 30-day delinquency list, triple, and our 60 day and our 90 day go up accordingly. We feel eventually these people are going to come back and pay if they are unbroken in the meantime.

You mentioned the cash flow to buy goods for Christmas. Anybody who wasn't ready for Christmas 2 months ago shouldn't have been a merchant to begin with. It is the replacement of after-Christmas merchandise that is a problem. But when you have substantial receivables out—we finance those receivables partially through borrowing from a bank—and that loan with the bank has to be repaid—as the repayments on those receivables gets slower, then we have a growing problem.

One potential, and I don't know what committee that could be addressed to, but perhaps again if this committee could act somehow to transmit the information, I would think some relief in the tax area could be found that would be far better relief than through low-interest loans or that sort of help. Because we have actually already paid income taxes to the Federal Government on accurred earnings. There was not a substantial reserve established for potential losses, and we are very possibly looking at heavy losses on those accounts receivable if this thing goes on over a long period of time. And we are not alone in that. There are a number of merchants in Calexico that have substantial receivable figures.

That I think is an important area of help. In a way it is not exactly what I consider subsidy. I think it is more in the area of justice.

Mr. MITCHELL. Could you be a little more specific in terms of tax relief?

Mr. HEALD. In other words, our auditors have advised us that in terms of last year's taxes that we cannot go back and amend, based on what we know now about those accounts. We paid last year's income tax, and the fact that we are losing our fannies on our receivables now does not affect what we can do about amending that return.

So we have to wait until next year's return to go back with an averaged income from other years in order to save money. Potentially, if we could amend last year's income tax return based on this emergency situation to put a much larger reserve for losses in our accounts receivable, then we would get a potential tax refund back based on last year's income tax payment.

The other thing that worries me, and maybe small business would be the correct champion for us in this area, is Mexican debts. I read the Chase Manhattan is owed some $5 billion or something like that, and Bank of America some $3 billion and so on and so forth. We are owed $3.5 million. That is peanuts compared to Bank of America. But to us it is big.

Who is going to represent us legally in dealing if the country of Mexico decides to allow certain debts to be paid off with preferred dollars. The Mexican Government came out with pronouncements at one point they were going to have preferred rates given to certain types of commodity purchases, where they would be able to pay with 70 to 1 dollars, and so forth.

And we feel that our debts were just as validly incurred, our creditors have just as viably come about as Bank of America's. And I don't think small businesses are going to have the same representation Bank of America and Chase Manhattan will have in dealing with the international finance area. So we would certainly appreciate some help in that area that would give us a louder voice as creditors.

Mr. MITCHELL. There I think perhaps we can give you some help. It seems to me we ought to get to the Counsel for Advocacy in SBA, and let him take up the cudgels in terms of working with those who are in the negotiations with Mexico.

Your point is well taken. Certainly we will follow through on that.

Mr. HEALD. I am sure the other gentlemen have various other angles to offer.

Mr. MITCHELL. Yes, sir.

## TESTIMONY OF CHARLES GRONICH, PRESIDENT, GARLAN'S, INC., CALEXICO, CALIF.

Mr. GRONICH. My name is Charles Gronich, president and owner of Garlan's, Inc., an apparel department store.

I don't have any absolute solutions to offer. I was invited to come here and tell about my problem, so I will give you a brief summary of what I have been doing.

My business started in 1973 with SBA backed financing, doing $700,000 the first year. At that time we had 14 people. Before February 1982 our store was doing business at the rate of $3.5 million a year in retail sales with 54 employees and full benefits, such as pension, profitsharing, bonuses, medical plan, et cetera.

We had projected $5 million for the 1983 fiscal year with 75 employees. By the end of July 1982, we were back to even after the February 1982 devaluation against the prior year and going strong until the second devaluation in August 1982. Our business dropped in half and it was quite apparent that it would take a long time, perhaps years, before business would come back to normal.

Mr. Hashem mentioned that merchants in Calexico were doing $138 million in business. I don't know—it sounded to me what he said was that we were $22 million off. That was the first time I had heard those statistics. But I would like to say that that should be looked into, because everybody that I talk to is at least 50 percent off.

So if we were doing $138 million last year, we wouldn't be off $22 million; we would be off about $70 million.

We reconstructed our fiscal year 1982 projection based on volume and expenses at 40 percent off from the prior year to service debt and maintain the nucleus of our organization at a little better than break even with about 25 employees at approximately 50 percent of previous mentioned benefits.

Since the September 1 freeze of the Mexican exchange rate, the problem has been compounded. Before the freeze, I had applied for my SBA peso-pack loan and based my projections for the next fiscal year at about 40 percent of the prior year. But since the September 1 freeze of the Mexican exchange rate, the problem has been compounded.

In order to do business, we have to continue accepting the Mexican peso which at 70 to 1 is worth only about one-third of the value as it was in February 1982. If the U.S. merchant accepts the peso at 70 to 1, he would presently lose about 75 percent to 80 percent by selling pesos out the door or to the cambio at the current 120:1 130:1 going rates. If the merchant charges the customer the going rate in exchange for his merchandise, the customer loses that 75 to 80 percent additional to what is only one-third of the pre-February value. The customer's earning power in that case is approximately—now, this is theory, but it has to be somewhere between 7½ to 15 percent of what his earning power was in February of 1982.

I opened a casa de cambio off of one side to the main entrance of my store as a means of reducing my losses. I charged my customers less than the going rate on merchandise, and charge account payments in the interior of the store.

As a function of my casa de cambio, I go out on the street or wherever to buy dollars for pesos at personal and monetary risk at higher than the going rate, than I sell pesos, in order to average my store pesos loss.

Now, not only the casa de cambio, but every merchant in town is doing that now to a certain extent, a great extent or a small extent. But nobody is paying any attention to their stores, doing business or selling merchandise. All they care about is selling pesos. And it is a carnival; it is a madhouse.

In my case it helped some. But if something is not done by an emergency State or Federal law soon to stabilize and reduce the widening gap between the official Mexican exchange rate and the artificially spiraling devalued rate now taking place on both sides of the border I am afraid all of my efforts and successes as well as many of those people in businesses who have built their lives, communities, and good international relations all the way from Brownsville to San Ysidro and Tijuana will slip away in a tide of ruin.

I would like to mention that the SBA peso-pack loan recently disbursed to me at 14¾ percent interest will give me time to survive, hopefully, until something positive happens. However, under the circumstances now of the additional exchange loss hardship we have been suffering, I feel there would be justification in reducing the interest rate on my loan if legislation being proposed by Senator DeConcini, S. 3014, is passed for new loans at 8 percent interest.

I am in agreement with you, sir, and Mr. Heald, that we are not looking for a handout. And of course we know if something is not done to stabilize the situation, loans are not the answer. We need a Federal-State law authorizing us to establish certain rules and regulations, in establishing an exchange rate that we can work in harmony with our Mexican counterparts.

Mr. MITCHELL. Thank you. I have some questions. But I will wait until we hear from our next witness.

**TESTIMONY OF HECTOR NAJERA, CROWN DISTRIBUTING CO., CALEXICO, CALIF.**

Mr. NAJERA. I am Hector Najera. I have been living in Calexico for 50 years. I don't have any figures with me, but I do have some facts. The facts are that I started business there about 15 years ago. It was with a $300 wagon. From there on I got an SBA loan. I started a warehouse. After my kids started growing up, we opened up different types of stores and businesses to get them in business also.

Just before the devaluation, I had five different businesses going. I am down to three right now. I cut down as much as I could on my employees. I had 14 employees this time last year, and then down to 8 right now. They are all working part time, including two of my married kids that work with me. They are also on the payroll, and working half time, too.

I figure that this is going to pass through and it is going to take a little while. Of course, for that we need some help from the Federal Government, if possible. That is the way I got started, and I sent them back everything that I borrowed from them.

And we had some other devaluations before, and we always came through. I am sure that the rest of the loan places like the Bank of America and the big banks that lend money to Mexico have the confidence they are going to get their money back. I am sure that the Federal Government doesn't think about lending money out to the foreign aid or whatever, not knowing they are going to get it back. They don't have to worry about that.

You know you are going to get it back one way or another. Even if they take the properties away.

Everything has been said. I am sure that if we get some help from SBA, we will come through. It may take a little longer this time, but we will make it. If we didn't have confidence in that, we would close up our stores right now.

Thank you.

Mr. MITCHELL. I certainly admire your spirit, the spirit of all three of you. I have a feeling you are going to make it, too.

Someone suggested earlier that your suppliers are now insisting on cash on the line, no more credit. Is that correct?

Mr. NAJERA. That is correct. We are getting letters from suppliers saying they can no longer send anything on a 30-day basis. They want profit and loss statements updated. We are paying c.o.d. They won't take our checks now. They want cashier's check or cash only. They don't want to take any chances. People we have been doing business with quite a while are turning their backs on us.

Mr. MITCHELL. Are you two gentlemen facing the same problems?

Mr. GRONICH. Definitely.

Mr. HEALD. We are not located just in the border community. If the situation got bad enough and we closed that store, our company would survive without it. But it is not going to feel very good.

Mr. MITCHELL. What about Garlan's experience?

Mr. GRONICH. The reason for our success is that we have always enjoyed an excellent credit rating. One of the reasons why I asked for the help of the SBA was that I foresaw that I was going to run into cash-flow problems. The main reason why I felt that I needed that SBA help was to assure my suppliers that I would be able to make my payments.

Naturally we cut our expenses and our inventory levels in half accordingly to the amount of our business. But we did have a build-up of merchandise coming in before the devaluation that we did have to pay for. And we didn't have the cash coming in because we were doing 50 percent less business. I have gotten through that cash-flow situation with the help of the SBA. It came just in the nick of time, because it is important to me that I maintain my excellent credit reputation.

So I am getting calls from suppliers, Dun & Bradstreet, the credit reporting agencies, asking for updates of our statements and so forth, because they are taking a close look at us. Fortunately, I am not behind in any of my payments. I am able to buy the merchandise that I need.

But of course it is based on a projection of doing half of the business that we were doing previously.

Mr. MITCHELL. Just two other thoughts from me. Obviously we represent the Federal Government. But it has been my experience that the Federal Government at its best moves slowly. You are asking for Federal intervention in terms of some money to get you through this crisis right now.

What's the possibility at the State level? There is a State economic development association or something similar. Have you heard any talk at all about the State possibly acting to fill in the breach?

Mr. GRONICH. Well, we have had people from the Federal Government and the State government come down to Calexico, on fact-finding missions. We have talked to quite a few committees now. We are talking to everybody.

Mr. MITCHELL. We are talking about some cash right now, some money, some guarantees.

Mr. GRONICH. We don't really know. My personal feeling is we came here to tell you what our problem is. And that whether it be cash or whether it be State or Federal law, changes in the law, whatever, we need some help to establish, stabilize the rate-of-exchange problem. It is not the peso devaluation. We can survive that, and just figure we are going to do a whole lot less business.

But over a period of years we will come back. The big problem now that is so devastating is that rate of exchange. My feeling is that is the first thing that has to be addressed. Then whoever is able to survive whatever other effects follow, because of the devaluation and the loss of business that we have incurred up to this point, financial help should be given to those who are capable of surviving.

I am afraid there is not going to be too much help for anybody that is not capable or able to survive, depending upon how long this exchange situation goes on.

Mr. HEALD. On the subject of that exchange, I would like to mention that a group of I think 30 merchants and businesses in Calexico have joined and formed a cooperative exchange. We felt by acting as a group and having at least one outlet that was an official exchange by those of us that were taking in pesos on a business basis, we could at least act as a stabilizing agent to the market.

It is a little early to say whether this will succeed because we are just in the process of getting it finally organized. It might be of interest to your committee to look over this. I have the latest letter and a contract with our membership. It is the way we are trying to operate a group exchange. We would just as soon cast this aside and turn that function over to banks that could be officially aided in forming an exchange, and I think that would dry up all these profiteering type businesses that have entered strictly for the purpose of making a quick buck on an exchange of money.

Now, that doesn't throw stones at the people that were already in the exchange business in Calexico or other border locations beforehand, where they were supplying a convenience to tourists and others that were frequently going down into parts of Mexico where they needed pesos. That was a business that was there to begin with and was legitimate.

The proliferation of these peso exchanges is basically being fueled by the Mexican bank accounts that got turned from dollars into pesos; the people are pulling them out, smuggling the pesos across the border and dumping them wherever they can get the best price, and that sometimes is a matter of going out and renting their own trailer and renting a vacant lot somewhere to set up until they have sold all their own pesos and are out of business.

This dumping is really what is hurting the market more than anything else. And until the Government of Mexico, takes a position in support of their peso instead of, as I said earlier, announcing a fictitious price they are not standing behind, I don't know where we are going to be. It would seem like our own banking system could have some way of at least helping us to establish a market for an exchang .

Mr. MITCHELL. Let us ha ve a copy of that.

At least there are two glimmers of hope—the businessmen coming together to try to stabilize the currency exchange, and the efforts referred to by the chief of police, Mr. Speer, in terms of some council action to limit the number of exchange houses.

Mr. Siljander, any questions?

Mr. SILJANDER. No questions, Mr. Chairman.

Mr. MITCHELL. Thank you very much, gentlemen.

At this time, we will call our next panel. You may proceed as you see fit. Thank you for taking the time to come here and give us your comments.

[Additional material supplied by Mr. Heald follows:]

November 6, 1982

Calexico Business Exchange, Inc.

Currency Exchange Contract

I, the undersigned, as an agent, owner, or appointed representative from the business named below, hereby contract with Calexico Business Exchange for the vending of Mexican currency that my business has acquired in the normal course of selling goods or services, or collecting accounts, from my retail or wholesale customers. As a member of the above Exchange, I am entitled to establish my exchange quota (Pesos that may be consigned for sale through the Exchange for a given day's business) by paying a Contract Fee to Calexico Business Exchange. Any Contract Fee paid before 5:30 p.m. on Monday, November 8, 1982, will be allowed a quota that is equal to FOUR TIMES the Contract fee. Thus, if I pay a Contract Fee of $500.00, I may consign up to $2,000.00 worth of Pesos to the Exchange for any day's sales. All Pesos on deposit with the Exchange from every member will be treated as being simultaneously deposited each morning, and will be sold as from a pooled fund in the proportion they represent to the total on deposit for each day's exchange.

In return for the above service, I agree to allow the deduction of 1 1/2% of the proceeds of all currency sold for my account as a charge to cover the expenses of Calexico Business Exchange. I accept the risk of further devaluation during consignment of currency to the Exchange. Should it be necessary for the Exchange to devalue (lower Peso price) beyond a 7 Peso drop in any day's consignment, the Exchange Board of Directors will close all sales for the day and notify all members with current deposits of the new rate drop, giving the opportunity to withdraw Pesos from consignment if so elected by Consignors.

In establishing my initial Contract Fee consignment quota, I further understand that I may increase my quota by further Contract Fee payment on each successive Monday, but that all subsequent Fees will gain quota at the lesser rate of THREE TIMES the Fee amount. I may not at any time be entitled to refund of Fees paid except at such time as Calexico Business Exchange might be officially dissolved, and at that time I will be refunded my pro-rated portion of all Fees paid after all other wind-down expenses of the Corporation have been paid.

In consigning currency to Calexico Business Exchange, I agree to hold it harmless from loss due to theft or armed robbery, as it is understood that insurance for such loss is unobtainable at this time. As a further consideration in this agreement, I will not sell Pesos in any other location at a rate that exceeds the Peso-per-dollar price posted at the official Exchange location at 209 2nd St., Calexico, or at such other location(s) as Calexico Business Exchange may later designate through notice to its membership.

_____
Name of Business

$_____
Fee Paid Herewith

_____
Address

$_____
Quota Established

_____
Signature

Calexico Business Exchange
355 3rd St.
Calexico, Calif. 92231
November 6, 1982

Dear Members,

I am sure you are as troubled as we are about the worsening events that have unfolded since our idea to form this co-op began. Even so, we have successfully incorporated and established a location that will serve as our cooperative outlet to combat the games we find being played at the many new exchanges in town. To succeed, we must pool our strength and probably take some currency losses at our exchange location, but at least we will be passing the bargains directly to our customers, instead of wholesaling Pesos to the exchanges, keeping them in business by the profit spread between a wholesale and retain price of Pesos.

I urge you to decide on a reasonable consignment quota, and bring your check to David Garza at the Imperial Stores office in Calexico. Please sign and return the attached contract along with your check so that we will be able to proceed in the co-op Exchange by next Wednesday at the latest. In case we are unable to raise a total of fees of at least $5000 from the entire membership, it would not be possible to proceed on the basis of the contract, and we would either extend the deadline and try until we raise that amount, or return your check within 15 days. Let's work together, and try to make a success of selling your pesos and drying up much of the profiteering that has been going on among the multiplying exchanges!

Sincerely,

Phillip Heald

Phillip Heald, President
Calexico Business Exchange

Board of Directors:
Fred Knechel
Tony Gonzales
Leo Gronich
Steve Wong
George Woo
Morris Resin
Phillip Heald

## PANEL CONSISTING OF SERGIO FARIAS; BILL POLKINHORN; AND ARTURO RIOSECO

### TESTIMONY OF SERGIO FARIAS, PRESIDENT, FEDMART DISCOUNT STORES, CALEXICO, CALIF.

Mr. FARIAS. I am Sergio Farias. I operate 2 stores, 1 in Calexico, 115,000 square feet, and 1 in Yuma, Ariz., with 50,000 square feet.

Our Calexico store used to employ 350 people. After they froze the dollar, I had to lay off 300 people. I am operating with 50 people. That business used to do $48 million a year. Now we dropped 80 percent of business. We used to do close to $1 million a week. Right now, we are hardly doing $200,000.

The effect of that dollar freeze has been catastrophic for us.

I can tell you all my problems. Everybody has problems in business. What we need from the Federal Government is to find a way to exchange our pesos for dollars. Three weeks ago, in 2 weeks, I lost $40,000 just trying to exchange my pesos.

I really believe with the help of the Federal Government something can be done to get the pesos to the American banks. I believe the problem is deeper. There are 2,000 miles of border.

You are talking close to 60,000 to 70,000 unemployed people. Over $2 billion in business we lost. Multiply that in the factories and the suppliers. The biggest problem in the United States, unemployment, and in the last 3 months, I think Mexico has played a big part in that.

I don't want to tell you my life story. I know everybody wants to speak. I have a letter which I addressed to Congressman Hunter last September. He presented it to Vice President George Bush, which I want to give you a copy. There is the whole story, what happens in the town, my feelings, solutions, what can be done.

And please, do not believe Mexico is going to do anything to help us.

I went through four devaluations: 1948; 1952; 1976; and this devaluation. What we really need is how to exchange pesos for dollars. Also some businesses should have money from SBA, but not 14.5 percent.

I believe the people in Calexico really need help. Fortunately, I don't. But many small businesses need that money to survive. Because people are getting merchandise on C.O.D. We, the big businesses, pay ahead of time, but the small businesses work on 15 days.

I would like to submit this letter and it will give you the story.

Mr. MITCHELL. Thank you.

Without objection, that letter will be received in its entirety.

[The letter follows:]

SERGIO ENTERPRISES, INC.,
*San Diego, Calif., October 30, 1982.*

Congressman DUNCAN HUNTER,
*Campaign Headquarters,*
*Chula Vista, Calif.*

DEAR DUNCAN: I am writing this letter in behalf of the Calexico and El Centro merchants. I know that you have a real interest in helping us solve our problems generated by the devaluation of the peso and the frozen dollar exchange by Mexico.

I am going to give you some figures of this devasting event and also suggest the possible solution to this problem.

Since September of this year forty small and medium businesses have been closed in this area. Unemployment has risen to 40 percent. Only in Calexico, in the month of September, unemployment benefits totaled $2,000,000 compared with last year's total of $450,000. The total retail business for 1981 for Calexico was $138,000,000 and it has decreased 70 percent. September 1981 sales taxes were $250,000 and this year will be under $100,000. Border crossing is down approximately 80 percent.

If this situation does not improve, by Christmas 1982, 50 percent of the businesses is this area will close with consequences of the increase of unemployment and also an increase of the crime rate.

Many factors contribute to aggravate this situation, but the number one factor is the inability to convert the pesos we take on a daily basis to dollars. Black market for this operation has emerged from the measures taken by the Mexican government.

As an example, my business is a store of 115,000 square feet with sales of $1,000,000 a week and employing approximately 250 to 300 employees. Our sales have decreased to $215,000 a week and we have laid off 70 percent of our employees. Because of the "Black Market," in the conversion of pesos to dollars this store has incurred a loss of $47,000 in three weeks.

This problem is not only a California problem, but also a problem to every state that has border towns with Mexico, and in turn is affecting the whole American economy. As business decreases in the border towns, the buying power to acquire goods from factories will be less. Consequently, unemployment is created in the whole country. And I believe this is one of the main reasons for the increase of the unemployment rate recently in the United States.

My recommendations for a possible solution to this grave problem, will be the ability of all businesses to deposit all pesos in the American banks to be converted into dollars. The United States government should then negotiate with Mexico to use these pesos to acquire raw materials. This will help alleviate this situation in the American economy and terminate the "Black Market," which is presently making a few people rich at the expense of the entire border business. After this program is put into effect, Small Business Administration loans will be needed at a very low interest rate in order to reconstruct the border businesses affected by this devastating event.

I have enclosed charts, newspaper clippings, and letters pursuant to this matter.

Yours truly,

SERGIO FARIAS, *President.*

## TESTIMONY OF BILL POLKINHORN, CUSTOMHOUSE BROKER AND FREIGHT FORWARDER, CALEXICO, CALIF.

Mr. POLKINHORN. I am Bill Polkinhorn. I am from Calexico, Calif. I am a customhouse broker and freight forwarder there. I would like to make a few sort of general remarks. Then I would like to tell you a few specific things about the effect it has had on my business, which I understand is what you are here to hear.

Since the dollar freeze in Mexico, it is my personal feeling that other than the efforts that have been made by the Small Business Administration, the U.S. Government has not been as responsive as it should be to this problem, not only in our town, but to the problem as it affects San Ysidro, Calexico, and all the way along 2,000 miles of border.

I feel that our banking system possibly had a large part in causing this problem that is taking place in Mexico. And due to the fact

that most of these banks that have made these large dollar loans to Mexico are federally chartered, the question that arises in my mind is why is our Government waiting until now through their efforts with the International Monetary Fund? Why are we waiting until now to begin putting conditions on these loans that we are making to Mexico?

Mexico is in effect bankrupt, and they cannot even make interest payments on the debt they owe us. And yet, we seem to have allowed them to have all this money with no strings attached. Now, the boomerang is coming back like it always does in those types of situations, and yet, we are not really getting any response.

I appreciate the limitations that your committee has. But yet, at the same time, I feel that as a committee you should possibly take this problem to a higher level, and be a little bit more forceful, clear up to the top, as to the effect it is having.

It is having a tremendous effect on our entire border economy. It is not just a small town type of situation.

Personally, I would like to see some 5, 6, 7, or 8 percent loans. I really feel those loans would be appropriate for certain types of businesses. It would certainly be appropriate for me. I don't sell merchandise to Mexico. I sell a service on merchandise going to Mexico, and merchandise coming out of Mexico.

On that part of my company that services merchandise going to Mexico, my business fell off 70 or 80 percent overnight—as soon as they froze the dollar. On the other hand, merchandise that we aid importers to bring into the country has increased 30 or 40 percent, because it is presently a good deal for an American importer to make a purchase of some commodities in Mexico due to the price differential that exists now.

I have a problem in that I have very large accounts receivable in Mexico, and the accounts are really good accounts, most of them are Government accounts. The light utility owes me money there, and the Federal branch of the Government that would be sort of like our Department of Agriculture, owes us money.

We are owed money by many large corporations in Mexico. I feel that ultimately I will get paid. They are companies we have been dealing with since the 1920's and the 1930's. My firm was established in 1917 in Calexico as a family operation. A large percentage of my accounts receivable are tied up at the present time down there.

I could certainly use that money to finance the other part of my business that is growing, believe it or not, at this particular time in Calexico. But I cannot really see paying 14.75 percent for the money. It is just not feasible for me. Maybe that is the very best the SBA can do at this time.

But I feel there is a significant percentage of businesses that really could use some low interest money. And the reason that I say low interest, and low interest sounds sort of ludicrous in this day and age, but I say low interest because we are talking about a problem that is not going to square itself away in the near future. It is just not.

If you read in any depth into Mexico's economic situation, it is very easy to see that we are looking at a very long-term type of recovery. It would seem to me they are taking the proper measures

and putting themselves in the right direction to recover economically.

It is just that it is going to take 10, 12, or 15 years, and we need low interest loans and a long term to pay them off. That would certainly help me.

Unless there are some questions, that is all I have to say.

Mr. MITCHELL. I do have some questions. But let's hear from the next witness.

**TESTIMONY OF ARTURO RIOSECO, AA PARKING & TRUCKING, INC., CALEXICO, CALIF.**

Mr. RIOSECO. I am a trucker out of Calexico. We are also a family run business. We used to have about 24 employees. We are cut down to 65 percent. That is both employees and business.

Mr. MITCHELL. How long have you been in business?

Mr. RIOSECO. We have been in business 6 years, going on 7. We started with one forklift and one truck, and now I have seven trucks and my brother has five. We bring in merchandise mostly, my end of it, from Los Angeles into Mexicali. The only business I have right now is business going out of Mexico to mostly the Los Angeles area.

I believe that we are in the wrong place at the wrong time. Along the border we will be faced with these problems continually. We are at the mercy of Mexico's economy really. Other than what we have in the valley, which is agriculture, we all depend on Mexico. It was clear to the valley what happened with the peso.

In Calexico it is more acute because we live almost entirely from Mexico. With the dollar now, again we are in the wrong place at the wrong time. The national economy is not doing so hot itself. Right now, if we are to sit here and ask this committee to give us aid or a helping hand, I believe that the Federal Government might not be receptive to us.

It seemed to be that way when some task force came to town offering 14.3 percent interest loans; that was no help. We are having a hard time meeting our obligations now. We don't need that kind of an interest loan to further throw us in the hole.

We need a task force to come down. I was pleased to hear the SBA man, Mr. Chandler, say that he would send a man at the drop of a hat tomorrow, permanently if necessary. We need this type of action by the Federal people.

We are looking for a solution from the Mexican Government. I think we are all waiting for December 1. We are looking for January, really, when the new government will start moving, and this good man supposedly will straighten things out, and perhaps bring back the dollar in circulation.

We need people to come down and look at our businesses. The SBA man said they went down and there was no reaction. Again, most of us are wanting to do it on our own. As you said, Mr. Chairman, we should be tending our business and really not being here.

But this is really our business right now.

We need people to come down and take a look at how each individual business, who has the capability, as one of the people who testified said, who has the capability of doing it and who is not ca-

pable. If a certain business qualifies, help them out. If certain businesses are too far gone, let them go.

But come down to the border and assess the situation as it should be, and not as the task force came down, they did nothing but jawbone.

Mr. MITCHELL. I am going to turn to staff for some advice on this.

If I am correct in assuming that right now SBA does have the power to lower those interest rates—you will have to advise me on that. What do you think would be the feasibility of getting the Small Business Administration at the national level to target lower interest rates just along that 2,000-mile border?

Mr. POWERS. SBA certainly does have the statutory authority to reduce the rates, Mr. Chairman. If you remember, the reconciliation law that we passed set the interest rate at a formula not to exceed the cost of money to the Government. It doesn't say not less; it says not to exceed more than.

They certainly have the authority if they want to reduce the interest rates; they have the administrative authority to do it immediately.

Mr. MITCHELL. And what do you think of the feasibility of getting to SBA on this and asking that they target those reduced rates to just the businesses along the border, on a temporary—I started to say demonstration basis—but I think you know what I mean.

Mr. POWERS. We could certainly go back to the agency with a renewed request. You made that request of the Administrator at the Washington hearings. So far, we have not received any sympathy from the administration on that.

Mr. MITCHELL. Let me turn to my colleague. On your side of the aisle, what do you think of those two approaches—asking SBA to reduce the rate, which it has the power to do, and to target for at least some limited period of time. What is your reaction?

Mr. SILJANDER. Well, let me say what I think the administration reaction would be.

My guess would be they would suggest there are other areas of the country that have equally or more severe economic crises, and why not target them as well? I think everything is a matter of priority. To you in your town, in your business that is No. 1.

When I run for office, my campaign is No. 1, too. But there are a lot of other campaigns, there are other businesses, other economic crises going on all over the country.

And whether or not we should target lower interest loans for those areas remains open for discussion. But my feeling of the administration, they probably would not look very favorably. I cannot speak for the administration. I am not President Reagan, nor am I the Administrator of the Small Business Administration, or the Director. That would be my best guess at best.

I want to emphasize I am not a spokesman for the Administrator or the President, but as part of that system, that would be my guess.

Mr. MITCHELL. Here is what I think I am going to do. I think we will again draft a letter suggesting that the Small Business Administration exercise the power it has under the law to reduce the rates and to try to come up with a firm justification for targeting in terms of the border businesses.

Absent the full cooperation of all the members of the committee, I would get as many members of this committee as possible to sign that letter, and bypass the Administrator of the Small Business Administration, and get it directly to the White House.

At least we will have made our case.

I cannot guarantee anything beyond that. But I feel so concerned about what is going on, I think we have to take that measure. I promise you we will do that.

Mr. RIOSECO. You said the Federal Government moves slowly at best. That is a truism. At the moment, though, we do need it; it is coming to a peak.

Mr. MITCHELL. Let me interrupt you just a moment. It is my understanding that as of today the Administrator of the Small Business Administration could make that decision, and it would simply be a matter of writing a memo which would go out the next day, saying the rates are down.

I had to interrupt you at that point, because although we do move slowly, there are occasions in which it can be done very quickly if there is a will to do it.

Mr. RIOSECO. It is becoming an emergency more and more. Starting in 1976, it has been gradually eating away at us. It is not to the point where a business closes down every day. When Joe was in Calexico one day, I think two businesses closed. We are beginning to shut down. It is a time to move.

Mr. MITCHELL. We shall do this. We shall send such a letter. They are going to have to telephone the various members of the committee simply to get an agreement they would sign that letter and really going directly to the White House rather than through the SBA.

I don't know to whom copies of that might be sent. But it may well be we should send it to the chamber of commerce or some group like that to let you know the action has been taken.

In your opinion, if you had the choice of the one thing that could be done right now, the one single shot, apart from the lower interest rates on loans or unfreezing the dollar or that kind of thing, which one of those options would you say you would go for?

Mr. FARIAS. Unfreezing the dollar. That way, the Small Business Administration doesn't have any problem, because we would survive.

Mr. POLKINHORN. I think our Government, if it is necessary, should take some arm-twisting tactics with Mexico to unfreeze the dollar, at least along the border, if nothing else. That would be the top priority for just about any of us that are living right in a border community.

Mr. MITCHELL. Thank you. Is that your opinion, also?

Mr. RIOSECO. Well, I don't think it is as simple as that.

Mr. MITCHELL. No, it is not.

Mr. RIOSECO. In reality, what has really stumped us is the freezing of the dollar. However, I think that most of the businesses, the way they are, unless they are a very professional business, the smaller businesses; we are not the greatest corporations, we are family-run. I think our business would really need more than just unfreezing the dollar at this time.

In my opinion, we need counseling as to how to right now best capitalize on a bad situation.

Mr. MITCHELL. All right. One last question or statement from me. I know I am taking more time than I should.

You say you need counseling and advice. Were you in the audience a couple of moments ago when you heard that kind of counseling is available to you?

Mr. RIOSECO. Yes, I was.

Mr. MITCHELL. Have you applied for it? Have you gone to anyone at all?

Mr. RIOSECO. From this meeting I want to go first to the SBA. I had some car problems and got here late. Hopefully, I can go from this meeting to the SBA. I have a SBA loan.

Mr. MITCHELL. OK. As long as you are aware of what has been said, that SBA is totally prepared.

Mr. RIOSECO. In my case, I have a loan guarantee with SBA. SBA has done a good job, I think, in my case, up to this point, where I believe SBA should have the authority that you have just perhaps extended, to study, to analyze, come down and take a look at our business, that has an SBA loan, and look it over, and say, OK, you need this. Everybody has a cash flow situation right now.

The regulations by which we have to live might have to be somewhat altered—the SBA terms and conditions of the loan. Like right now, if I have to liquidate some of my assets, I have to go to the bank, to the SBA, back to the bank. I believe right now, along the border in any case, the SBA should have the authority to take more of an active part with business.

Mr. MITCHELL. OK. I am going to have to add to your burdens. We talk to a lot of people when we have a hearing like this. Every once in a while, I like to single out one particular case and try to follow through on it. You are now aware that SBA is in a position to give you some advice and technical assistance.

You are trying to avail yourselves of that. When that has taken place, when you have met with SBA on the problem, I would appreciate it if you would write to this committee to let us know what kind of advice you got, whether you followed through on it, whether it is helpful.

You talk to a whole lot of people and you never follow that one case, to see whether or not it has been helpful. That is adding to your problems, I know. But I would be most appreciative if you would do that.

Mr. RIOSECO. I will.

Mr. MITCHELL. Congressman Siljander.

Mr. SILJANDER. I understand and appreciate your need for technical assistance and advice. The SBA Administrator, Mr. Chandler, has said he has offered some assistance in the past, is willing to do so again in the future. I would say at least in that regard you have our support, you have his support.

I would think at least we are making some progress in that area.

There is nothing much I can say to be overencouraging to you except I am sure Mr. Chandler and our committee will be more than happy to help you in that area all we can. Thank you.

Mr. MITCHELL. Thank you, gentlemen.

Mr. GRONICH. Mr. Chairman, I would like to say one thing in defense of SBA. They have been very helpful to me ever since I started in business. They are strict. It is not easy to get a loan. You have to really show them if you can handle it, and they will back you up. I think what has been discussed here before is that there are a lot of people in our area that are good business people, but they don't have the technical knowledge and ability to figure out what their problem is.

Yet, they are good business people. But they are so small, they don't have the help and the capability of putting all those projections and things together. There used to be a national economic development association that I think doesn't exist any more.

And they put a couple of loans together for me several years ago at no extra cost.

I believe they were very helpful in a situation with small business people that don't know how to put their packages together. I was able to do it myself, because we had grown to the size, and the capability. I am somewhat knowledgeable about SBA and I was able to do it myself without as much help. Some of these small people really needed the help and should have applied, but they didn't know how to ask the questions.

And when the people that were there to help, they were not able to ask the questions. They are not able to really know where to go. The big problem is the exchange problem. Once we figure that out, half the battle is won.

Mr. RIOSECO. Mr. Mitchell, it is not my intention to come to this meeting to attack the SBA. I am appreciative of the help we have received so far. What I am saying is that there are a lot of regulations, a lot of red tape involved in an SBA loan.

Right now, action has to be taken on those loans from one day to another.

Mr. MITCHELL. I just want to reemphasize the point. We in no way were attempting to denigrate the efforts of SBA. In Calexico something happened, despite Mr. Chandler's best efforts of getting the word out that he has assistance available, something went wrong.

And Mr. Chandler has instituted action to take care of that. I just want to make sure we follow through on that.

Mr. CHANDLER. Yes, sir. We just double-checked with our people who have been in contact with our contact at the Calexico Chamber and we are told within the last 24 hours there have not been any calls for management assistance within the last 2 weeks.

Nevertheless, I plan to send somebody over there tomorrow.

Mr. MITCHELL. We have one for you now.

Mr. CHANDLER. He is going to be up in my office this afternoon.

Mr. MITCHELL. Thank you very much.

I would like to move on to panel 4, Mr. Ron Hull, Mr. Ernest Felix, and Mr. Ken Rosevear from El Centro.

Gentlemen, thank you for being here. Proceed in whatever order is best.

## PANEL CONSISTING OF RON HULL; ERNEST FELIX; AND KEN ROSEVEAR

### TESTIMONY OF RON HULL, MAYOR PRO TEMPORE, EL CENTRO, CALIF.

Mr. HULL. Mr. Chairman, I am Ron Hull, mayor pro tem of the city of El Centro. I also wear a second hat as the manager of the local agricultural association. I would like to make a brief presentation on behalf of both entities as it relates to this committee.

I would like to preface it by saying I agree with Mr. Heald's former comments, that we may not be before the correct committee, but you are the only committee that has shown any interest in this serious matter.

It appears from the city of El Centro our situation is not nearly as severe as that of Calexico, in relation to the fact that they do not have peso exchange houses in the city. We are 13 miles from the border. Our main function is the county seat of the county of Imperial, and a service center for a population of Imperial County of about 90,000 people.

In addition to that, we supplement all of our businesses there with trade from that large pool of the Mexicali area of 800,000 people. We are not as dependent as the city of Calexico on that retail trade, although our businesses develop a certain amount of credit across that line on a daily and monthly basis.

The two other speakers here today will touch on those two aspects, one from the retail trade, one from the industrial segment of our community in El Centro.

Before I came up here today, I talked briefly with our accountant at the city. She was not able to give me exact figures on tax revenue losses. But I can forward those to you at a future time.

Mr. MITCHELL. We would appreciate getting that.

Mr. HULL. I will have those numbers for you. She assures me there has been a decrease over the past couple of months.

Our sales tax revenues are not as dependent on the Mexican trade as Calexico. In addition, I will forward you the unemployment information. As you may or may not be aware, the county of Imperial has an unemployment rate of 39 percent. The county as a whole is experiencing a tremendous economic depressed effect.

The devaluation has magnified that problem.

I would like to change my hat now and put on my growers hat. Our association is the Imperial Valley Vegetable Growers Association. It is made up of approximately 45 growers and shippers of fresh produce from the Imperial Valley. In addition to the growers and shippers we also have an associate membership which is made up of associated companies, implement dealers, and any allied industries that service the agricultural community.

What happened that we have been able to notice from our associate membership is that many of those businesses are experiencing severe losses of revenue because of the fact that they are not able to maintain the trade that they have developed across the border with Mexicali because of the peso devaluation.

So they are experiencing basically the same type of loss of revenues you are going to hear from our other two businessmen here.

I think without belaboring the point I would just kind of stop there, and if you have any questions, I will be glad to answer them.

Mr. MITCHELL. Why don't we hear from all of the members of the panel and then come back for questions.

## TESTIMONY OF ERNEST FELIX, YELLOWMART STORE, EL CENTRO, CALIF., AND CHAIRMAN, RETAIL TRADE COMMITTEE, EL CENTRO CHAMBER OF COMMERCE

Mr. FELIX. I am Ernest Felix. I operate four stores, one in El Centro, which was the biggest at one time. By no means does the peso problem end at the border. It extends far beyond. I was prepared to give all kinds of facts and figures, but they have already been cited extensively.

Nobody has mentioned this before, but say, for instance, I am used to selling a person a pair of boots, which I cannot sell now because he is unemployed. This person is not in Calexico but he may be somewhere else, but was a customer of mine.

This person was laid off because his employer laid him off because he was not selling merchandise to Mexico. It has a ripple effect that goes far beyond the Imperial Valley. I was having lunch with a person today who happens to be from Chula Vista. He said he was just talking to a Nike salesman. He says he developed a $400,000 purchase from this person in the last 4 or 5 years.

"The last two trips he has made here I have bought nothing from him." This one person is a salesman that depends on customers like this for his living. Now, I think Nike shoes are made in Oregon. This is the ripple effect I am talking about.

If this person was not getting any money because he was unable to sell, then also the factory is going to have to sell less, make less merchandise and also probably lay off more people.

Mr. MITCHELL. Or step up sales in some other area.

Mr. FELIX. I am just talking about one commodity. It could be 100 different commodities. But all along the border, I am sure there are hundreds of thousands of Nike shoes sold. These people are probably put on a C.O.D. basis.

Let me go into something else.

I am also president of the Downtown Merchants Association. Before I came here, I made it a point to talk to each and everyone as much as I could. Everybody that I spoke to, everybody, and we are talking about El Centro, we are not talking about Calexico—everybody was down at least 20 percent. I am down more than that, because I do a lot of dealings with the Mexican Government.

But everybody was down at least 20 to 30 to 50 percent. As I say, everything has been said that I was going to say.

Thank you.

## TESTIMONY OF KEN ROSEVEAR, PRESIDENT, DOUTHITT STEEL & SUPPLY, INC., EL CENTRO, CALIF.

Mr. ROSEVEAR. I am Ken Rosevear. I am president of Douthitt Steel & Supply. We are a 59-year-old industrial supplier in Imperial Valley. We have locations in El Centro; Yuma, Ariz.; Blythe and Indio, Calif. We have a resident salesman who has been our agent for some 22 years in the city of Mexicali. Approximately 15 percent

of our total volume comes from the Mexicali and northern Mexico market.

The latest peso devaluation has impacted us to the extent of approximately $1,000 a day in what we call walk-in business. These are people that travel to El Centro to buy different types of industrial supplies.

The main thrust of our business is welding supplies, steel fabrication, steel buildings, industrial gases, and industrial supplies.

Our Mexicali customers, even though many of them have the ability to pay Douthitt Steel for the receivables they have incurred, do not have the vehicle for getting U.S. dollars to pay us.

Some of these are large dollar accounts. I might cite one example. We have many, many thousands worth of receivables down there. I make a trip every Tuesday to visit our customers in the Mexicali area.

Many of these people do have the ability to pay, although they do not have the ability to pay in dollars. They cannot get those dollars to us. We cannot take out $8,000 or $10,000 worth of pesos at one time. We have not resorted to any black market tactics to get that money, although those avenues are available.

We have curtailed for the most part most receivable sales or charge sales in the Mexicali area. We have one commodity that we continue to supply, and that is medical oxygen. We have no intentions, nor could we morally cut off any medical oxygen supply to the city of Mexicali.

We are not the sole supplier, but we are one of the larger suppliers of medical oxygen to the Mexican market in that area. So we continue to incur heavy losses as far as receivables.

Mr. MITCHELL. You are paid for your medical oxygen in pesos?

Mr. ROSEVEAR. Normally, they are paid in U.S. dollars. We are simply extending credit without terms at this point. One is a hospital situation, and several are medical suppliers.

We have had to cut off the calcium carbide business to Mexico which in essence shuts down the welding industry. We are the sole source of calcium carbide which makes acetylene. We truck it from Portland, Oreg., to Mexicali.

At this point, the welding market is virtually at a standstill in Mexicali because of lack of calcium carbide. The plant in Mexico is shut down because of the internal problems, and that business is just nonexistent at this point.

At the present rate of progress, I, as a merchant, do not see any quick answers as everyone else has stated in this meeting. I think the sole priority at this point is Douthitt Steel is not here to ask for a loan. My banker will verify I don't need any more loans. I do consider it a top priority to do something about the exchange situation. The sole source of our problem is getting the pesos into dollars. That will put dollars in our till. We do not have that vehicle. We have tried selling at the current Calexico rates, and if you match those rates, your business is nonexistent.

And in turn, you are not able to turn those pesos back into dollars without discounting that figure.

So I think some sort of a control of the peso exchange, at least in our business, is a top priority.

Mr. MITCHELL. Thank you.

What would be your recommendation about how to tackle this problem of the exchange rate? You know the structure of the government, the agencies involved and so forth. Just from the top of your head, what is your recommendation?

Mr. ROSEVEAR. First of all, I would pick an exchange rate that has a more true value to it; 70 to 1——

Mr. MITCHELL. What is a more true value?

Mr. ROSEVEAR. That is not even a feasible figure. It is not even close to that. I don't think it can possibly run at that. As I say, people in the area can absorb and can handle an exchange rate they know that has some stability to it. And that seems to be the problem.

If it is 116 one day and 135 the next, how do you buy pesos one day and turn them to dollars the next? You cannot. That seems to be the problem. The fluctuation is the unknown factor in dealing with the market.

Mr. MITCHELL. OK. Then, as a starting point, would you recommend that something like the Department of the Treasury or Federal Reserve or somebody come up with a realistic exchange rate?

Mr. ROSEVEAR. Right. If they knew tomorrow morning it would be 100 to 1, and they knew it was going to be that at least for the month of December and that it would not change, I think that the people—I cannot speak for other businessmen here—but if that was the rate and they knew it was going to be stable for a period of time, they would adjust their business accordingly.

And I think at that point it would force some of the unscrupulous money exchange people out of the business. The people that go by the norm, that is their sole existence, could live with that.

But I think the adjustment up and down is the factor that makes it unworkable at this time. I think it has to be stable and it has to be stable for a period of time. That allows the merchant to catch up on his receivables, that allows a person to catch up on inventory at a stable rate, and allows payments and exchanges of pesos to dollars to be made.

Mr. MITCHELL. I just have one other question.

Mr. Felix, you are president of the Downtown Merchants Association in El Centro. You said you talked to a number of them and there was a consensus that they are down 20 to 50 percent. How many merchants are you talking about?

Mr. FELIX. I talked to approximately 25 merchants before I came here.

Mr. MITCHELL. What is your total membership?

Mr. FELIX. I don't have the figures, sir. The retail merchants I spoke to, whom I was concerned with, I talked to about 25 or 30 people.

Mr. MITCHELL. I see.

Mr. Siljander?

Mr. SILJANDER. Thank you very much. I don't have any further questions. We will just plug away with the weapons we have. I never thought I would have to resort to just sheer persuasion. I hoped somewhere down the line a committee of the Congress would have the power to just move in and do something.

But it is not here. But we will attempt to persuade and cajole as best we can.

Mr. ROSEVEAR. Sir, I would like to make one more comment. I am sorry I was not here to hear the presentation this morning by the gentleman from Bank of America. I think everyone in this room has received letters from their bank saying, we will not take checks from Mexico, do not do this, do not do that.

When you enter into a discussion with the bank concerning peso exchange, you feel like walking into the lobby as a rabid dog. I have contacted the International Division of Bank of America. They have no solution.

Even though revenues of our companies of $7 million go through that bank branch in 1 year, they throw up their arms. Maybe rightfully so. I am not saying that is the location for answers to our problems. But if you are a businessman and looking to your banker for any kind of counseling, help, you might as well forget it.

Mr. MITCHELL. Well, it just seems to me this is a situation that cries out for some agency of Government, and I assume it might be the Department of Treasury, to say OK, here is what we are going to shoot for as an exchange rate, and then that entity of Government would have to be the initiator of contacts with the banks and other lending institutions in the area, to see to what extent or degree they would be supportive of that kind of approach.

It is pretty clear to me that Treasury alone is not going to do it, nor is the Federal Reserve going to do it. There is going to have to be some conjunction of effort here. We will follow through. I wish I could promise you the world, but I just cannot. The only thing I can promise you is that we will really, really try.

Thank you, gentlemen.

Our next panel consists of Mr. Garcia, Mr. Scolari, Mr. Briseno, and Mr. Hernandez.

## PANEL CONSISTING OF ALBERTO GARCIA; JOSEPH V. BRISENO; ALONZO R. HERNANDEZ; AND ARTURO SCOLARI

### TESTIMONY OF ALBERTO GARCIA, PRESIDENT, INTERNATIONAL CHAMBER OF COMMERCE, SAN YSIDRO, CALIF.

Mr. GARCIA. Thank you, Mr. Chairman.

I have a prepared statement here that I would like to read for the record, sir. Before I do this, I just want to make a few comments.

First of all, I would like to welcome all of you to San Diego County and to the area to look at our problems and the interest you have demonstrated to see if there is a solution to the problems that many businessmen throughout the border are suffering at this time.

I think that we have come to a crisis, and there are serious problems insofar as the business community is concerned in our area.

The peso devaluation of our neighboring country has caused a chain reaction of side effects in our economy. The stability of hundreds of businesses along the border is in jeopardy. We understand the problem is very complex and the solution depends on many factors.

After months of observation of this unique phenomenon that we had the opportunity to analyze on a firsthand basis, we have come to the conclusion that the most feasible, logical, and legal approach

to bring back international trade between Mexico and the United States of America would be: (a) Establish a currency exchange system within the U.S. banking institutions to permit businessmen from both sides of the border to carry out transactions in a conventional manner; (b) to honor the parity established by the Mexican Government, and to regulate all money exchange business under the U.S. Federal Government; (c) to provide emergency loans due to economic dislocation at long terms and low interest to the business in need of such aid.

We feel these three measures will provide a long-term solution and business will improve and eventually get back to normal once a fixed parity is established and banking transactions can be made.

Our chamber does not have the staff or the economic means to gather statistics on the phenomenal events that have taken place in San Ysidro, but we can state as fact that within the last 3 months approximately 60 money exchange booths have flourished in San Ysidro with detriment to the merchants that cannot adjust their prices to the fluctuating rate of exchange on a daily basis, and when they venture to accept pesos for their products or services they stand to lose money in the transaction, most of the time from 5 percent to 10 percent on the dollar.

Our chamber very strongly objects to the outrage of subjecting honest businessmen to the necessity of depending on "A money exchange black market system" for survival.

Once more we want to emphasize the needs and to impress the fact that we don't want handouts. We just want the opportunity to run our business with some stability and to be able to sell our goods or services to Mexican nationals and accept their currency with dignity and good faith.

For a more broad picture of the mechanics in our community and the role of businessmen in San Ysidro, we want to state the fact that the San Ysidro School District, especially in these days of Government cuts of financial aid for education, as have most districts, has turned to the private sector to secure funds for some worthwhile programs. In our district for the past 3 years we have depended on donations from local business to provide our children with "The college for kids program" for gifted students, "The 6th grade summer camp program," and "The community education program" geared toward parents education in family distress, drug prevention, health nutrition, and positive parenting.

This crisis no doubt will have an adverse effect on this program and on the socioeconomic impact in the field of education. It's one we cannot afford in our community.

Furthermore, the unemployment statistics have raised dramatically in the past 3 months in our area due to the fact that most employees in the local businesses are residents of San Ysidro.

Other minor problems have arisen in our community. We understand it's a local problem but nonetheless related to the sudden flow of people seeking the money exchange booths, that has caused an increased in traffic, and subsequent accidents, plus the crime rate, mostly cases of assault, robbery, and purse snatching. Thus, to us it's cause for alarm since for the past 10 years our community has been rated by the San Diego Police Department as the one

with the lowest crime rate in the city of San Diego and San Diego ranks in third place as the lowest crime rate city in the country.

San Ysidro is the door to Mexico in imports and exports and they have come to a halt. The consequences will impact the whole country in the days to come. We in San Ysidro are speaking for the manufacturer in St. Louis, New York, San Francisco, and so forth, for the local businessman and for our counterparts in Baja that depend on obtaining U.S.-made materials for their businesses to function, and they are about 60 percent of all businesses in the Peninsula.

Your mission here today is to seek input to solve the problem and we hope we have done our share. We will continue to participate and keep lines of communication open with the Federal Government to insure that this door remains open to the international trade and to our neighbors that cross the border to visit, shop, and spend approximately $500 million in San Diego county alone.

We must for the benefit of our economy keep and encourage that source of revenue. We cannot afford to close the door, or our minds. We feel it is our responsibility to the survival of "The Free Enterprise System" in America.

Thank you, Mr. Chairman.

Mr. MITCHELL. Thank you very much.

Mr. GARCIA. I have a package for you on the first devaluation, the second, and the third, since February.

We have been informing different government agencies, starting from our local representatives to our State representatives to our Federal representatives and directly to the SBA. Mr. Chandler and I have been working very closely together. By the way, they have been very, very cooperative with our business people. Unfortunately, sir, the interest rates are not right. And this is one of the many, many complaints that our businessmen have made to us and have stipulated to us, that the rates are not in accordance with the problems that some of our members are suffering at this time.

[The devaluation material referred to follows:]

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

November 8, 1982

Congress of the United States
Committee on Small Business
Parren J. Mitchell, Chairman
2361 Rayburn House Office Bldg.
Washington, D. C. 20515

Dear Mr. Mitchell:

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This crisis no doubt will have an adverse effect on this programs and the socioeconomic impact in the field or education it's one we can not afford in our community.

Furthermore the unemployment statistics have raised dramatically in the past three months in our area due to the fact that most employees in the local businesses are residents of San Ysidro.

Other minor problems have arised in our community which we under-stand it's a local problem but none the less related to the sudden flow of people seeking the money exchange booths, that has caused an increased in traffic, and subsequent accidents, plus the crime rate mostly cases of assault, robbery, purse snatching. This to us it's caused for alarm since for the past 10 years our community has been rated by the San Diego Police Department as the one with the lowest crime rate in the city of San Diego and San Diego ranks in third place as the lowest crime rate city in the country.

San Ysidro is the door to Mexico in imports and exports and it has come to a halt, the consequenses we know it will impact the whole country in the days to come, we in San Ysidro are speaking for the manufacturer in St. Louis, New York, San Francisco, ect., for the local businessman and for our counterparts in Baja that depend on obtaining U. S. made materials for their businesses to fuction and they are about 60% of all businesses in the Peninsula.

Your mission here today is to seek input to solve the problem and we hope we have done our share, we will continue to participate and keep lines of communication open with the Federal government to insure that this door remains open to the International trade and to our neighbors that crossed the border to visit, shop, and spend approximate 500 millions dollars in San Diego county alone.

We must for the benefit of our economy keep and encourage that source of revenue, we can not afford to close the door, or our minds we feel it is our responsability to the survival of "The Free Enterprice System" in America.

Sincerely yours,

Alberto R. Garcia
President

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

FOR IMMEDIATE RELEASE

THE INTERNATIONAL CHAMBER OF COMMERCE OF SAN YSIDRO AT THIS TIME URGES ALL GOVERNMENT REPRESENTATIVES AT LOCAL, STATE AND FEDERAL LEVEL TO TAKE IMMEDIATE ACTION TO PRESERVE THE FREE ENTERPRISES SYSTEM ON THIS ECONOMIC CRISIS DUE TO THE MEXICAN PESO DEVALUATION AND OFFICIALLY REQUEST TO HAVE SAN YSIDRO DECLARE A DISASTER AREA DUE TO ECONOMIC DISLOCATION UNDER THE S.B.A. POLICY 7 (B) (9) ACTED IN 1976. AND TO APPROPRIATE NECESSARY FUNDS TO PROVIDE RELIEF BUSINESESS IN NEED TO AVOID BANKRUPTCY, UNEMPLOYMENT, AND ALL SUBSEQUENT EFFECTS OF MEXICO'S ECONOMIC TURMOIL.

INTERNATIONAL CHAMBER OF COMMERCE OF SAN YSIDRO
EXECUTIVE BOARD.

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

ICCSY

Tel. (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

October 8, 1982

President Ronald Reagan
White House
1600 Pennsylvania Ave., N.W.
Washington, D. C. 20510

Dear Mr. President:

The purpose of this letter is to call your attention a major recurring economic problem that is adversely affecting most business along the Southwest border and in particualr our county. I am referring to the devaluation of the Mexican peso. Although the full impact is yet to be felt, but sure to come, it is safe to say that lost jobs, lost income and business failures will become prevalent. Since the Mexcian customer spends approximate 5 hundred million dollars per year in San Diego County, alone it is also safe to say that very few of us will be immune from this problem or its effects. This recurring economic problem will, as in the past, trigger other equally serious problems such as loss of revenue for city, county, state and federal government, increased costs for training displaced workers and even increase our welfare rolls.

Americans will continue to go into Mexico and spend large sums of money. However, Mexican nationals, because of the rate of exchange, will be very reluctant to shop in our country, especially if our businesses are hard to find and not competitive. This most certainly will adversely affect our balance of trade. The resulting weekend economy will be even more costly and damaging to our nation in terms of lost production, lost jobs and lost skills.

The tragedy of this economic situation and the steadily worsening condition can and must be stopped and reversed. To do this the present administration must immediately exercise its sovereign power and declare this condition to be a disaster so that the State can begin its legitimate work within the context of existing legislation to help those businesses that were truly adversely affected, satisfy all criteria, and desire assistance.

The assistance should include:

A Emergency Financial Aid at Low Interes and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B The acceptance of Mexican Currency by U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican banks of U.S. Businessman.

If we insist that each individual has the responsibility to play a productive role in society, then when some actually go beyond that level of responsibility and with their own money, propsperity drive, enterpreneurship, and time, create jobs and fill a void in products and/or services; and, if through no lack of their own energy or ingenuity, they are faced with the danger of their business being destroyed; then it is up to us to provide encouragement and whatever temporary assistance is necessary during their readjustment period.

If the County Board of Supervisors act decisively, and correctly defines the problem for what it is, we can immediately reverse this deplorable situation and get once threatened businesses back on the road to a more productive American.

Enclosed you will find a petition circulated among businesses in the area, this will enable your board to establish direct contract with some of affected businesses. If our chamber can assist in any way to ascertain or define the needs to solve the problem, please contact us immediately as we consider this matter an emergency situation and it shoud be handled as such.

Sincerely,

Alberto R. Garcia
Acting President

Enclosures

c.c. Congressmen Duncan Hunter, Bill Lowry, Clair Burgener
Supervisor Jim Bates

318 E San Ysidro Blvd
San Ysidro Calif 92073

ICCSY

Tel (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

8 de Octubre de 1982

Honorable Presidente Electo
Miguel De La Madrid Hurtado
Mexico, D. F.

Estimado Presidente Electo:

La Camara Internacional De Comercio de San Ysidro, California por medio de la presente se honra en darle una afectuosa bienvenida a la Ciudad de San Diego, y al mismo tiempo felicitarlo por haber sido elegido por el pueblo Mexicano como supremo mandatario de la Republica de Estados Unidos Mexicanos.

Sinceramente deseamos que su periodo sea de paz y prosperidad para la economia de Mexico a la cual nos unen lazos comerciales muy estrechos y complejos. Ademas como Mexico-Americanos sabemos y sentimos que nuestras raices estan alla en esa tierra querida donde nuestros antepasados derramaron su sangre por la soberania del suelo Mexicano. Asi que puede Ud. contar con el apoyo del comercio organizado en este lado de la frontera porque sabemos que trabajando unidos con una misma meta para beneficio del comercio internacional podremos resolver muchos problemas que ahora nos afectan en iguales proporciones en la zona fronteriza.

Esperamos de muy buena fe que en el futuro nos permita tener las lineas de comunicacion abiertas durante su sexenio para prevenir problemas y buscar soluciones de acuerdo a las prioridades que existan en el futuro y tomando en cuenta que como buenos paises vecinos tenemos una responsabilidad humana y moral para otras naciones menos afortunadas que las nuestras.

En esta ocasion resultaria muy dificil enumerar todos los problemas que nos aquejan, pero si deseamos hacer referencia a ciertos asuntos que en nuestra opinion necesitaran su atencion inmediata al entrar en funciones como mandatario de la nacion:

A. Establecer un acuerdo entre la Banca Nacional y las instituciones bancarias de E.U.A. para facilitar las transacciones comerciales e industriales de ambos paises. Y damos nuestro apoyo como camara empresarial para impugnar la aceptacion de Moneda Nacional en los comercios Americanos de toda la franja fronteriza de Mexico con E.U.A. Y pedimos que la Banca Nacional de Mexico nos apoye para aceptar Moneda Nacional para pago o deposito en cuentas bancarias de E.U.A.

B. Evaluar concienzudamente los beneficios que derivan de la zona libre para el comerciante fronterizo y el publico consumidor de la zona afectada y conscientes de la problematica fronteriza y la actitud gubernamental de Mexico, le solicitamos su fallo favorable para la continuacion de la franquicia de la zona libre para el Estado de Baja California y parcial de Sonora.

C. Preocupados por el bienestar social y economico de los Mexicanos indocumentados que trabajan y radican en toda la Union Norteamericana, le suplicamos su atenta colaboracion en la revicion e implementacion de la nueva ley de inmigracion Simpson Mazzolli y las consecuencias que traera para los Estados Unidos y Mexico en un futuro proximo.

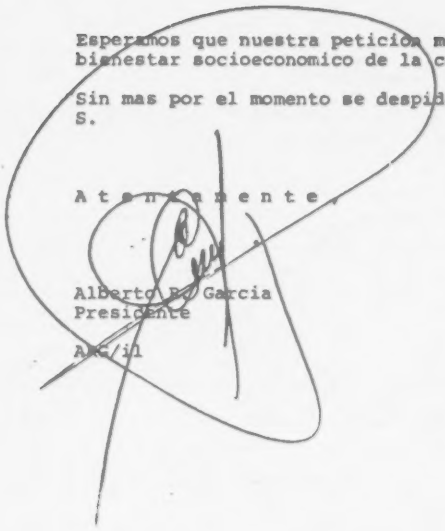
D. Reconsiderar y revisar minuciosamente el Decreto Presidencial fechado el lro de Septiembre del presente ano por medio de un estudio guiado a la posible factibilidad de que nosotros como extranjeros se nos diera un trato legal para poder canjear nuestras cuentas en Dolares por Dolares sin perjudicar la economia nacional, y restaurar la confianza de muchos empresarios e inversionistas que habiamos depositado en la Banca Mexicana con toda confianza y fe en la integridad de un Gobierno solido y democratico. Hemos sufrido notablemente por la presente crisis economica que origino la devaluacion de la Moneda Mexicana y estamos conscientes de que nuestras peticiones no tienen una solucion sencilla y que su tarea al asumir el poder no sera facil, pero esperamos ser un factor positivo con nuestra informacion en el proceso o mecanismo gubernamental que decida implementar durante su administracion.

Estamos en la mejor disposicion de colaborar y asistir en nuestra capacidad y hasta donde nos sea posible y esperamos su atenta consideracion a nuestros puntos de vista en la presente crisis economica de la region fronteriza por la cual atraviesa actualmente.

Esperamos que nuestra peticion merezca su aprobacion por el bienestar socioeconomico de la comunidad fronteriza.

Sin mas por el momento se despide de Ud. su mas Atto. y S. S.

A t e n t a m e n t e ,



Alberto R. Garcia
Presidente

ARG/il

# International Chamber of Commerce of San Ysidro

## Camara de Comercio Internacional de San Ysidro

660 E. SAN YSIDRO BLVD. SAN YSIDRO, CALIF. 92173 TEL. 428-1187

| | | |
|---|---|---|
| 1. | Guillermo Meza 674 E. San Ysidro Blvd. | 428-5160 |
| 2. | [illegible] | ✓ ✓ ✓ |
| 3. | [illegible] | |
| 4. | Dr. Cuitapia DC 159 W. San Ysidro Bl. | 428-5831 |
| 5. | Rafael Gloria 323 E. SAN YSIDRO | 428-2433 |
| 6. | Sandra Chavez Clark | 422-8772 |
| 7. | Carlos Sergio T | 428-1187 |
| 8. | Roberto Reddel | 428-5824 |
| 9. | Enrique Medina | 428-0136 |
| 10. | Lucille LaCisera | 428-5142 |
| 11. | Juan J. Garcia | 428-5122 |
| 12. | James L. Lamm | 428-04-60 |
| 13. | ESTELA CARASA CENTRO ESTHETICS 588 E. San Ysidro Blvd. | 428-0308 |
| 14. | Aloysius Alexander | 428-2259 |
| 15. | Henry L. Beck | 428-0224 |
| 16. | Margarita Gabilida | 428-1014 |
| 17. | Alicia Lopez | 422-9147 |
| 18. | Margarita Gabilida | 428-4551 |
| 19. | Juanita Ortiz | 428-4551 |
| 20. | Pedro Hernandez Guadalajara de Noche | 428-2623 |

# International Chamber of Commerce of San Ysidro
## Cumara de Comercio Internacional de San Ysidro

660 E. SAN YSIDRO BLVD. SAN YSIDRO, CALIF. 92173 TEL. 428-1187

1. ALONZO R HERNANDEZ (CHINA INN RESTAURANT)
2. [illegible] 318 E. SAN YSIDRO BL. S.Y.
3. MANUEL [illegible] 111 W. OLIVE DR. SAN YSIDRO CA
4. MANCILLAS AND SON
5. MARGUERITE MARTINEZ 428-0293
6. GLORIA SALAZAR 690-5567
7. DAGOBERTO BRUSEWITZ 474-4604
8. HERMAN AUTLER 428-5043
9. OLIVIA B. RODRIGUEZ 428-39-82
10. [illegible] MONTENEGRO DRIVE 428-0243
11. CARMEN MOLINA 428-0136
12. JESUS VARGAS 693-0625
13. CHONG YU 428-0308
14. JOSE CARILLOS 111 W. OLIVE DR "A" 428-2929
15. 
16. 
17. 
18. 
19. 
20. 

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro
660 E. SAN YSIDRO BLVD. SAN YSIDRO, CALIF. 92173 TEL. 428-1187

SIGN IN SHEET

1. Maria Salas 428-0136
2. Leticia Kier 427-1080
3. Frances Vasquez 425-5948
4. Gabriel Olivo 428-2015
5.
6.
7.
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# peso crisis $ in $ San Ysidro

Tel. (714) 428-9530

*International Chamber of Commerce of San Ysidro*
*Camara de Comercio Internacional de San Ysidro*

# MEETING

ICCSY

CONGRESSIONAL TASK FORCE MEETING

DATE: SEPTEMBER 10, 1982 (FRIDAY)
TIME: 10:00 A.M.
PLACE: SAN YSIDRO CIVIC CENTER
212 W. PARK AVE. S. Y. CA

# $ LOANS $

DUNCAN L. HUNTER
COMMITTEE ON ARMED SERVICES
SUBCOMMITTEES
MILITARY PERSONNEL AND COMPENSATION
PROCUREMENT AND MILITARY NUCLEAR SYSTEMS

JOHN A. MEANLEY

# Congress of the United States
## House of Representatives
### Washington, D.C. 20515

FOR IMMEDIATE RELEASE: September 3, 1982

WASHINGTON, D.C. --- Congressman Duncan Hunter's Congressional Task Force on the Peso Devaluation has organized a series of fact-finding conferences between Administration officials and border community leaders in an effort to bring a rapid end to economic disruption.

The conference will provide affected communities to voice their concerns and suggestions regarding the peso devaluation to the Executive Branch.

Officials from the Departments of Commerce, Treasury and State, the Small Business Administration and the U.S. Chamber of Commerce will hear from mayors, community bankers and representatives of the local chambers of commerce.

Hunter praised the responsiveness of the Administration in agreeing to the series of conferences.

"It was imperative that we address the problem as quickly as possible. The Administration recognized this and acted immediately and correctly in seeking local input," said Hunter.

The first meeting will be held in San Diego on September 9 with the second to take place on September 10 in Calexico. The other meetings will occur in Arizona, New Mexico and Texas winding up on September 15.

"I don't think you could find a better place to find solutions to this difficult problem than in the communities that are most affected," said Hunter.

###

# SBA News

U.S. Small Business Administration

SBA Number: 82-82

Release Date: FOR IMMEDIATE RELEASE

For more information
Contact:
Riley Y. Johnson
Small Business Administration
880 Front Street, Suite 4-S-29
San Diego, California 92188
(714) 293-5444

"PESO PACK" PROGRAM ANNOUNCED BY SMALL BUSINESS ADMINISTRATION

George P. Chandler, Jr. District Director of the Small Business Administration (SBA) in San Diego, announced today the locations of assistance centers where loan and management counseling interviews will be conducted under the Agency's new "Peso Pack" program.

The program was unveiled yesterday in San Diego and Washington, D. C. as an Administration measure to help businesses which have been hurt by the Mexican peso devaluation.

Chandler said: "Loans up to $100,000 will be made to eligible firms at an interest rate of 14-3/4 percent". The maximum term of the loans will be 10 years.

According to Charles T. C. Lum, Assistant District Director for Finance and Investment in SBA's office, "a business must have typically generated more than 50 percent of its sales from Mexican Nationals and must have suffered a reduction in sales and earnings since the peso devaluation occurred in February of this year." Loan proceeds may be used to carry accounts receivable, meet current operating obligations, bring long-term debt current, etc.

The SBA centers for this program will be located in Calexico and San Ysidro and will be open beginning on Tuesday, September 7th, at 9:00 a.m.. Office hours will be from 9:00 a.m. to 5:00 p.m. These centers will be maintained for as long as the demand for these special services exists.

Business owners should bring business and personal financial statements, estimates of the business lost because of the peso devaluation, plans for business recovery, aged schedules of payables and receivables, and other pertinent information to loan interviews and management couseling meetings.

The Calexico facility will be in the Calexico Chamber of Commerce at 1100 Imperial Avenue and will be staffed by SBA loan officers Bill Howell and Carlos Montalvo and by Service Corps of Retired Executives (SCORE) counselors. Appointments with SCORE counselors and information regarding loan interviews may be obtained at the Chamber of Commerce at (714) 357-1166.

The San Ysidro facility will be in the San Ysidro Recreation Center at 212 West Park Street. Staffing will consist of SBA loan officers Al Converse and Socorro Romero and SCORE counselors. Appointments with SCORE counselors and information regarding loan interviews may be obtained at the Recreation Center at (714) 428-2125.

*** END ***

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I [illegible] hereby declare and affirm that my business have a decreased on sales of approximate 70 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

[illegible] Business

110 E. Olive Address

Signature of Authorized person.

Phone (714) 428-4481

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Manuel Dia hereby declare and affirm that my business have a decrease on sales of approximate 80 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

M. V. CARPET
Business

Manuel Dia
Signature of Authorized person.

111 D. CLIVE AVE
Address

SAN YSIDRO CA 92073
Phone (714) 428-2924

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Jose T. CASILLAS hereby declare and affirm that my business have a decrease on sales of approximate 45 % since the Peso Devaluation of February, 1981 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

CASILLAS GLASS & MIRROR Co.
Business

Mary Sue Casillas
Signature of Authorized person.

111 W. OLive Ave Suite 'A'
Address

SAN YSIDRO, CA. 92073

Phone (714) 428-2929

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Hernandez Felipe hereby declare and affirm that my business have a decrease on sales of approximate 50 % since the Peso Devaluation of February, 1981 to the Revaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Guadalajara de Noche Rest. 111-E West Olive Dr.
Business Address

Felipe Hernandez
Signature of Authorized person.

San Ysidro Ca. 92073

Phone (714) 428-2623

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I PAUL ANDRADE hereby declare and affirm that my business have a decrease on sales of approximate 80 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

ANDRADE INTERIORS
CARPETS & DRAPES
2893 FLAX DR.
SAN DIEGO, CA 92139
TEL. 5 [illegible]

Business

Paul Andrade

Signature of Authorized person.

2893 FLAX DR.
Address

SAN DIEGO CA. 92154

Phone (714) 575-1678

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I LUIS SINGUIMANI hereby declare and affirm that my business have a decrease on sales of approximate 95% % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Dino's Factory Outlet
Business

Signature of Authorized person.

111 C Olive Ave
Address

San Isidro CA. 92173

Phone (714) 428-2541

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-4530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Jess de la Torre hereby declare and affirm that my business have a decrease on sales of approximate 35% since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Jess de la Torre
Business

Jess de la Torre
Signature of Authorized person.

301 E SAN YSIDRO BLVD
Address

SAN YSIDRO CAL 92073

Phone (714) 428 2172

JESS ARCO SERVICE
P. O. BOX 26A
SAN YSIDRO, CA 92073

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Gilbert Murrieta hereby declare and affirm that my business have a decrease on sales of approximate _____ % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Business: ACE High Transportation Inc.

Signature of Authorized person: Gilbert Murrieta

Address: 1347 Sampson
San Diego, CA. 92113

Phone (714) 234-4161

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I ALFONSO T. CALDERON hereby declare and affirm that my business have a decrease on sales of approximate 80 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

GOLDEN SPIKE Co.
Business

Alfonso T. Calderon
Signature of Authorized person.

1229 3RD AVE. SUITE D
Address

CHULA VISTA

Phone (714) 4205110

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I J. J. Padilla hereby declare and affirm that my business have a decrease on sales of approximate Closed 99% since the Peso Devaluation of February, 1981 to the Revaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

J & L Carnero
Business

Signature of Authorized person.

4464 Camino de La Plaza
Address

San Ysidro CA 92073

Phone ( )

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Joseph Bassano hereby declare and affirm that my business have a decrease on sales of approximate 35 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully

Country Smith Inn
Business

J. Bassano
Signature of Authorized person.

2911 Roy St
Address

National City Calif 92050

Phone (714) 474 4604

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428 9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I JAIME G. ESCARCEGA hereby declare and affirm that my business have a decrease on sales of approximate 95 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

J & L FOREIGN CAR SUPPLY
Business

Jaime H. Escarcega
Signature of Authorized person.

128 W. SAN YSIDRO BLVD. SAN YSIDRO, CA. 92173
Address

Phone (714) 428-2885

318 E San Ysidro Blvd
San Ysidro Calif. 92073

ICCSY

Tel (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I LETICIA KIER hereby declare and affirm that my business have a decrease on sales of approximate 50 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Kier Co.
Business

Leticia U. Kier
Signature of Authorized person.

3064 Main St.
Address

Chula Vista, Cal.

Phone (714) 427-1080

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Tomas Reyes hereby declare and affirm that my business have a decrease on sales of approximate 75 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

King's Wkls Auto Glass
Business

3064-A Main St
Address

Chula Vista, Ca

Elena Reyes
Signature of Authorized person.

Phone (714) 422-9192

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Chung H. Yu hereby declare and affirm that my business have a decrease on sales of approximate 70 % since the Peso Devaluation of February, 1981 to the Revaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

CENTURY FASHION
Business

368 East San Ysidro Blv
Address

Chung Hee Yu
Signature of Authorized person.

San Ysidro Ca. 92073

Phone (714) 428-0308

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Crecencio Zuniga hereby declare and affirm that my business have a decrease on sales of approximate 60 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Chico's Taco Shop — Business
Crecencio Zuniga — Signature of Authorized person.

326 San Ysidro Blvd — Address
San Ysidro CA. 92073
Phone (714) 428-7384

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

ICCSY

Tel. (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I JOSE P. GONZALEZ hereby declare and affirm that my business have a decrease on sales of approximate 40 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

M & M HARDWARE
Business

José B. González
Signature of Authorized person.

165 VIRGINIA AVE
Address SAN YSIDRO, CA. 92073

Phone (714) 428 2285

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

*International Chamber of Commerce of San Ysidro*
*Camara de Comercio Internacional de San Ysidro*

September 7, 1982

TO WHOM IT MAY CONCERN:

I JOSE L. TORRES hereby declare and affirm that my business have a decrease on sales of approximate 60 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Business

Signature of Authorized person.

Address MONFORT WORLD TRAVEL
514 E. San Ysidro Blvd.
San Ysidro, CA. 92073

Phone ( ) (714) 428-0293

318 E San Ysidro Blvd
San Ysidro Calif. 92073

Tel (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Concepcion Medina hereby declare and affirm that my business have a decrease on sales of approximate 70 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Medina Fashions — Business

Concepcion Medina — Signature of Authorized person.

358 A E. San Ysidro Blvd — Address

San Ysidro Calif

Phone ( ) 4280136

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Alma V. Hernandez hereby declare and affirm that my business have a decrease on sales of approximate 25 % since the Peso Devaluation of February, 1981 to the Devaluation of August, 1981.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement thru diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

CHINA INN
Business

Signature of Authorized person.

"CHINA INN"
RESTAURANT
Address 351 E. SAN YSIDRO BLVD.
SAN YSIDRO, CAL. 92073
428-2250 428-2259

Phone ( )

318 E San Ysidro Blvd
San Ysidro Calif. 92073

ICCSY

Tel (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I JUAN CIENDA hereby declare and affirm that my business have a decrease on sales of approximate 50 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

AZTLAN MEAT MK #3
Business

Signature of Authorized person.

AZTLAN MEAT CO #3
Address 524 E. SAN YSIDRO BLVD.
SAN YSIDRO CALIF. 92073
(714) 428-5122

Phone (714) 428-5122

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Joe Serrano hereby declare and affirm that my business have a decrease on sales of approximate 75 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Tequila Corp
Business

Joe Serrano
Signature of Authorized person.

3573 Beyer Blvd #56
Address

San Ysidro Ca. 92073

Phone (714) 428-3352

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Jack Yufe hereby declare and affirm that my business have a decrease on sales of approximate 60 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Business El Fl[illegible]

Address

Jack Yufe
Signature of Authorized person.

Phone ( )

318 E. San Ysidro Blvd
San Ysidro Calif 92073

ICCSY

Tel (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I HERMES SIERRA hereby declare and affirm that my business have a decrease on sales of approximate 50 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

RAINBOW AUTO PAINTING SUPPLY
Business

HERMES SIERRA
Signature of Authorized person.

342 WEST SAN YSIDRO BLVD
Address

SAN YSIDRO, CA. 92073

Phone (714) 428-2260

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

ICCSY

Tel (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I Marisela Peacher hereby declare and affirm that my business have a decrease on sales of approximate 80% since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Forever Living Products
Business

Marisela Peacher
Signature of Authorized person.

609 Shepard Lane
Address

San Diego Ca. 92154
Phone (714) 690-56-28

MARISELA PEACHER

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I ARTHOR SCOLARI hereby declare and affirm that my business have a decrease on sales of approximate 78 % since the Peso Devaluation of February, 1982 to the Devaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Business SCOLARI-LOPEZ, INC.

Address 660 E. SAN YSIDRO BLVD. SAN YSIDRO, CA. 92073

Signature of Authorized person.

Phone (714) 428-1187

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428-9530

ICCSY

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

September 7, 1982

TO WHOM IT MAY CONCERN:

I ALFONSO CAMBEROS hereby declare and affirm that my business have a decrease on sales of approximate 40 % since the Peso Devaluation of February, 1982 to the Revaluation of August, 1982.

To meet my present business commitments and survive the financial side effects of this economic crisis my needs are:

A- Emergency Financial Aid at Low Interest and long terms under the S.B.A. Economic Dislocation Policy (7B9) of 1976 or a similar program.

B- The acceptance of Mexican Currency by local U.S.A. banking institutions guarantee by the U.S. Federal reserved board.

C- That the present administration and the California congressional delegation have an agreement through diplomatic channels to unfreezed dollar accounts in Mexican Banks of U. S. Businessman.

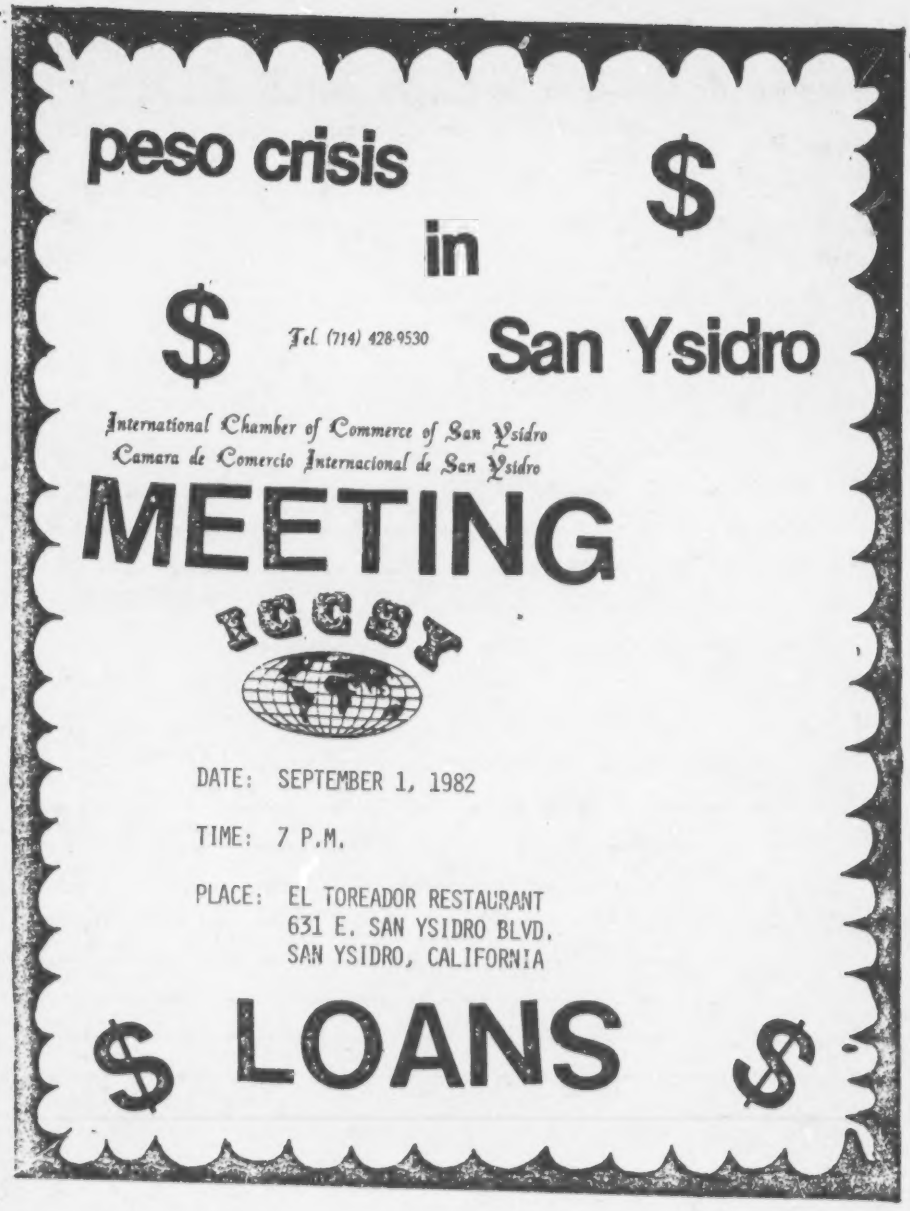
This measures will enable the trade of commerce to continue and Mexican nationals to resume consumption of goods and services and to bring U. S. Credit accounts to date.

Respectfully,

Henley's Restaurant
Business

Alfonso Camberos
Signature of Authorized person.

640 E. SAN YSIDRO
Address
BL S. Y Calif 92073
Phone (714) 428-4711


peso crisis
$
in
$
Tel. (714) 428-9530
San Ysidro
International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro
MEETING
ICCSY
DATE: SEPTEMBER 1, 1982
TIME: 7 P.M.
PLACE: EL TOREADOR RESTAURANT
631 E. SAN YSIDRO BLVD.
SAN YSIDRO, CALIFORNIA
$ LOANS $

**International Chamber of Commerce of San Ysidro**
**Camara de Comercio Internacional de San Ysidro**

660 E. SAN YSIDRO BLVD. SAN YSIDRO, CALIF. 92173 TEL. 428-1187

1:PM Meeting Sept 1, 1982

SIGN IN SHEET

1. Alonzo R Hollandsworth (Calif Int'l Restaurants)
2. [illegible] 218 E. San Ysidro Blvd SY
3. Manuel Vea 111 W Olive Dr San Ysidro CA
4. Marcellino's Pizza & Spa
5. Margaret Gutierrez 428-0293
6. Gloria Salazar 690-5567
7. Angel Briseno 474-4604
8. Herman Ayala 428-5043
9. Alicia B. Rodriguez 428-39-82
10. [illegible]
11. Carmen Medina 428-0136
12. Jesse Navarro 693-0625
13. Chung Yu 428-0308
14. Jose Casillas 111 W. OLIVE DR "A" 428-2929
15. 
16. 
17. 
18. 
19. 
20. 

**International Chamber of Commerce of San Ysidro**
**Camara de Comercio Internacional de San Ysidro**

660 E. SAN YSIDRO BLVD. SAN YSIDRO, CALIF. 92173 TEL. 428-7187

1. Guillermo Mesa 674 E. San Ysidro Blvd. 428-5166
2. [illegible] ✓ ✓ ✓
3. [illegible]
4. Dr. Cumplido 105 W. San Ysidro Bl 428-5831
5. Gabriel Moreno 323 E. SAN YSIDRO 428-2933
6. Sandra Chavez Clark 422-8772
7. [illegible] 428-1187
8. Roberto Hubbell 428-5831
9. Compere Nicolino 428-0136
10. Lucille LeCuyer 428-5142
11. Juan J. Garcia 428-5122
12. James Lanza 428-0466
13. ESTELA CARACA · CENTRO Y FASHIONS 568 E San Ysidro Blvd. 428-2308
14. Alonzo R. Miranda 428-2259
15. Henry L Beck 428-0224
16. Margarita Caballero 428-1014
17. Chuy Lopez 422-9167
18. Yolanda Caballero 428-4551
19. Juanita Cruz 428-4551
20. Pedro Hernandez Guadalajara de Noche 428-2623

**COUNTY OF SAN DIEGO**
BOARD OF SUPERVISORS • 1600 PACIFIC HIGHWAY, ROOM 335
SAN DIEGO, CALIFORNIA 92101 • (714) 236-2249

TOM HAMILTON
SUPERVISOR
FIRST DISTRICT

Rec'd 8/28/82

August 23, 1982

Mr. Raul Andrade, President
International Chamber of Commerce
of San Ysidro
318 East San Ysidro Boulevard
San Ysidro, California 92073

Dear Mr. Andrade:

I want to provide you with an update of the efforts my office is making to help businesses in the South Bay which are suffering from the devaluation of the peso.

As you recall, I sent a letter to Congressman Duncan Hunter asking him to do everything possible to reinstate the Federal Economic Dislocation Program which is unfunded this fiscal year. Mr. Hunter's staff contacted my office on August 19, 1982, to inform me that the Congressman is planning on forming a task force consisting of representatives of all border states to study this problem. The task force hopes to develop some sort of plan to assist businesses impacted by this economic crisis. In addition, Mr. Hunter will be sending letters to President Reagan and Governor Brown requesting their help in this effort.

AS you know, I also sent a letter to Assemblyman Wadie Deddeh asking him to convince his colleagues in the legislature to adopt legislation which would establish an economic assistance program at the state level. Attached is a copy of his response which indicates that he will look into all possible ways to alleviate the problems faced by failing businesses in the border area. For your information, I have also enclosed a copy of a recent San Diego Union article that you may already have seen which details the actions Governor Brown has taken to declare San Diego and Imperial Counties economic disaster areas.

I hope this information has been of some help to you. Please let me know if I can be of any further assistance in this matter.

Sincerely,

Tom Hamilton

Tom Hamilton
Supervisor, First District

TDH:RT:mf

Attachment

cc: Congressman Duncan Hunter
Bertha Alicia Gonzales

**COUNTY OF SAN DIEGO**
BOARD OF SUPERVISORS • 1600 PACIFIC HIGHWAY, ROOM 335
SAN DIEGO, CALIFORNIA 92101 • (714) 236-2249

TOM HAMILTON
SUPERVISOR
FIRST DISTRICT

Rec 8/16/82

August 9, 1982

The Honorable Duncan Hunter
Congressman, 42nd District
415 Canon Building
Washington, D.C., 20515

Dear Duncan:

I recently was contacted by representatives of the International Chamber of Commerce of San Ysidro regarding the impact of the devaluation of the peso on businesses in the South Bay. I also received a copy of the attached letter from the Chamber addressed to Supervisor Jim Bates describing this economic crisis.

In an attempt to assist this organization and those businesses which are suffering from the devaluation of the peso, I contacted our Office of Disaster Preparedness (ODP) to determine what steps the County must follow to declare a state of economic disaster in the South Bay. I was told that the Board of Supervisors must approve a formal resolution requesting the Governor to make such a declaration which in turn should make state and federal low-interest loans available to failing businesses.

Our ODP staff then contacted the State Office of Emergency Services (OES) to find out what kind of documentation the Governor would need from these businesses in order to declare a disaster. To my surprise, OES staff told us, in essence, it doesn't matter what information we give the Governor, the State currently has no program to provide economic assistance to businesses facing this kind of problem. Therefore, any efforts on the County's part would be in vain.

In addition, to my further dismay, the State informed us that the Small Business Administration told them that Congress did not fund the Federal Economic Dislocation Program this fiscal year. Therefore, no low-interest loans are available from the Federal Government either.

I understand that the Chamber of Commerce also has contacted your office for assistance in this matter. I believe that you could be most helpful by convincing your colleagues in Congress to reinstate funding for the Federal Economic Dislocation Program. I would encourage you to take whatever actions are necessary to achieve this goal so that businesses in the South Bay can survive this economic disaster.

Thank you for your help.

Sincerely,

Tom Hamilton

Tom Hamilton
Supervisor, First District

TDH:RT:mf

Attachment

cc: International Chamber of Commerce of San Ysidro
Bertha Alicia Gonzales
Office of Intergovernmental and Public Affairs

COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS • 1600 PACIFIC HIGHWAY, ROOM 335
SAN DIEGO, CALIFORNIA 92101 • (714) 236-2249

TOM HAMILTON
SUPERVISOR
FIRST DISTRICT

August 10, 1982

The Honorable Wadie P. Deddeh
Assemblyman, 80th District
State Capitol
Sacramento, California 95814

Dear Wadie:

I recently was contacted by representatives of the International Chamber of Commerce of San Ysidro regarding the impact of the devaluation of the peso on businesses in the South Bay. I also received a copy of the attached letter from the Chamber addressed to Supervisor Jim Bates describing this economic crisis.

In an attempt to assist this organization and those businesses which are suffering from the devaluation of the peso, I contacted our Office of Disaster Preparedness (ODP) to determine what steps the County must follow to declare a state of economic disaster in the South Bay. I was told that the Board of Supervisors must approve a formal resolution requesting the Governor to make such a declaration which in turn should make state and federal low-interest loans available to failing businesses.

Our ODP staff then contacted the State Office of Emergency Services (OES) to find out what kind of documentation the Governor would need from these businesses in order to declare a disaster. To my surprise, OES staff told us, in essence, it doesn't matter what information we give the Governor, the State currently has no program to provide economic assistance to businesses facing this kind of problem. Therefore, any efforts on the County's part would be in vain.

In addition, to my further dismay, the State informed us that the Small Business Administration told them that Congress did not fund the Federal Economic Dislocation Program this fiscal year. Therefore, no low-interest loans are available from the Federal Government either.

I understand the Chamber of Commerce has contacted various state representatives requesting assistance in this matter. I believe that you could be most helpful by convincing your colleagues in the Legislature to adopt appropriate legislation establishing a financial assistance program to deal with this crisis situation. I would encourage you to take whatever actions are necessary to achieve this goal so that businesses in the South Bay can survive this economic disaster.

Thank you for your help.

Sincerely,

Tom Hamilton

Tom Hamilton
Supervisor, First District

TDH:RT:mf

Attachment

cc: International Chamber of Commerce of San Ysidro
Bertha Alicia Gonzales
Office of Intergovernmental and Public Affairs

SACRAMENTO ADDRESS
STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814
(916) 445-7580

DISTRICT OFFICE
310 THIRD AVENUE, SUITE 210
CHULA VISTA, CALIFORNIA 92011
(714) 427-7680

BARBARA STRAHAN
ADMINISTRATIVE ASSISTANT

# Assembly
# California Legislature

ASSEMBLY COMMITTEES
FINANCE, INSURANCE AND COMMERCE
GOVERNMENTAL ORGANIZATION
REVENUE AND TAXATION
TRANSPORTATION

MEMBER
COMMISSION OF THE CALIFORNIAS

CHAIRMAN
REVENUE AND TAXATION COMMITTEE

WADIE P. DEDDEH
ASSEMBLYMAN, EIGHTIETH DISTRICT
SAN DIEGO COUNTY

August 16, 1982

Honorable Tom Hamilton, Supervisor
The County of San Diego
1600 Pacific Highway, Room 335
San Diego, CA 92101

Dear ~~Supervisor Hamilton:~~ Tom

Thank you very much for your letter of August 10 on the fall-out effect of the peso devaluation problem.

I will look into all possible ways to alleviate this dislocation. Certainly, I would agree with you that when the issue is essentially an international one, a federal agency, such as Small Business Administration, should be funded to meet such an unexpected emergency.

Thank you again for asking my assistance.

Sincerely,

Wadie

WADIE P. DEDDEH

WPD:al

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel. (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

May 28, 1982

Duncan Hunter, U.S. Congressman
2530 Highland Ave.
National City, CA 92050

Dear Mr. Hunter:

By means of this letter the International Chamber of Commerce would like to thank you and your staff for the unvaluable assitance provided to our chamber to spearhead the movement to seek financial help to the business comunity in our area.

Your office was the only one of our representatives that made any attempt to come to the aid of the small businessmen that became adversely affected by the Mexican Peso Devaluation.

We especially like to recognized the efforts of your representative Cato Cedillo who above and beyond the call of duty assisted with information and all resources available.

Enclosed you will find copies of petition that has been circulating among businessman in the area that have been affected. Also copy of Press Release that was given on our last meeting that took place May 27, 1982.

We look forward to keep working with you for the benefit of the organized business community and for the perservation of the free enterprise system.

Sincerely yours,

Margarita Gutierrez
Manager

MG/tm

Enclosures

City of Los Angeles

CITY HALL
LOS ANGELES, CALIFORNIA 90012
(213) 485-3311

OFFICE OF THE MAYOR

TOM BRADLEY
MAYOR

August 30, 1982

The Honorable Ronald Reagan
The President
The White House
Washington, D.C.

Mr. President:

I am writing to express my concern for those California small businesses which are adjacent to the Mexican border. As you know, the recent Mexican peso devaluation and freeze on bringing U.S. dollars out of Mexico and into the United States has worked a serious economic hardship on such California towns as San Ysidro and Calexico which depend upon border trade for their economic survival.

Prior to August 13, 1981, California small businessmen who so desired had available to them a Federal long-term, low interest rate loan program which might have seen them and their families through such a period of hardship. Unfortunately, the repeal of portions of Section 7(b) of the Small Business Act by Public Law 9735 ("The Omnibus Reconciliation Act of 1981") removed this economic dislocation loan program from the reach of qualifying small businesses. At that time there was no way to foresee that a need, such as this, would arise in the near future. This program had previously been used to offset the economic effects of peso devaluations in 1978 and has also been effective in providing assistance to Californians whose businesses suffer hardships which are seasonal, accidental, or beyond their control.

I have suggested to the California Congressional Delegation that they introduce emergency legislation re-creating this vital component of the Small Business Act. I am calling this to your attention in the hope that you will support this action.

Sincerely,

Tom Bradley

TOM BRADLEY
Mayor of Los Angeles

TB:ku

NEWS FROM TOM Bradley FOR GOVERNOR

August 30, 1982

**Contact: Tom Sullivan**
**Victoria Pipkin**

FOR IMMEDIATE RELEASE

BRADLEY URGES QUICK ACTION TO AID BORDER SMALL BUSINESSES

SAN YSIDRO--Los Angeles Mayor Tom Bradley, concerned about the devastating effects the devaluation of the Mexican peso is having along the U.S./Mexican border, visited affected shopowners in San Ysidro Monday (August 30) to discuss ways to aid the small businesses in California, which depend on legal visitors from Mexico for 90% of their trade.

Mayor Bradley said he will call upon the President and the California Congressional delegation urging that they introduce emergency legislation to reinstitute Section 7(b) of the Small Business Act, providing loans to small businesses at less than prime interest rates.

He told the small business owners California could lose millions of dollars in revenues as a result of the peso devaluation, and that he would work to reinstate the program of low-interest loans to help tide the proprietors over the present crisis and keep them in business.

Previously, this program had been used to bolster business in Calexico in 1978 to offset the effects of peso devaluations.

This program also has been effective in providing assistance to Californians whose businesses suffer hardships which are seasonal, accidental or beyond their control.

--MORE--

Friends of Tom Bradley 3250 Wilshire Blvd., Suite 812, Los Angeles, CA 90010 (213) 385-2634

Paid for by Friends of Tom Bradley, Bruce Corwin, Treasurer

"The recent economic events in Mexico have had a devastating impact on California small businesses near the border," said Bradley. "Through no fault of their own, many of their businesses are rocking on the edge of bankruptcy."

Bradley said he believes emergency federal legislation is necessary to help the small business people weather the short-term effects of the peso crisis.

# # #

el mexicano
GRAN DIARIO REGIONAL
Sección A

Año XXII
Núm.8,199. Baja California, Martes 31 de Agosto de 1982. SERGIO GOMEZ SILVA
Director y Gerente General

*SAN YSIDRO, California.- Los comercios del sur de California, demandaron ante el candidato a la Gobernatura de California y Alcalde de Los Angeles, Tom Bradley, apoyos económicos para poder "sobrevivir".*
(foto color Rufino Luna)

# Los Comerciantes del sur de California Demandan Ayuda Para Poder "Sobrevivir"

SAN YSIDRO, California.- Los comerciantes del Sur de California, demandaron ante el candidato demócrata a la Gubernatura de California y al alcalde de Los Angeles, Tom Bradley, que apoye sus gestiones para que se "declare zona de desastre económico el Sur de California" y puedan "sobrevivir".

Ante el candidato demócrata, los comerciantes californianos manifestaron que sus ventas se desplomaron 80 por ciento y que, en algunos casos, las pérdidas se elevan al 60 por ciento de sus operaciones normales, advirtiéndolo que de continuar así hay comercios que solamente pueden soportar 90 días más.

A estas inquietudes, Bradley anunció que habló directamente ante el Presidente Ronald Reagan y los legisladores californianos en Washington, para exponerles la situación y pedir que se "declare zona de desastre económico" al Sur de California, señalando que le hizo notar a Reagan y los legisladores, que solamente en el renglón de impuestos

(Pasa a la Pág. 1, Col. 6)

## Los Comerciantes...

(Viene de la 1a. Página)

California recibe 500 millones de dólares de los consumidores mexicanos fronterizos.

Al exponer su situación, los comerciantes sudcalifornianos demandaron que se haga presión a las autoridades mexicanas para que se "descongelen" las cuentas de 12 mil millones de dólares, que se declare zona de desastre económico y que se de apoyo económico que les ayude a "sobrevivir".

Por último, Bradley aseguró a los comerciantes de la zona, después de realizar un recorrido por la zona comercial, que insistirá ante el Presidente Reagan y los legisladores californianos, para que se "declare zona de desastre económico el Sur de California" y los comercios puedan "sobrevivir".

State of California
GOVERNOR'S OFFICE
SACRAMENTO 95814

EDMUND G. BROWN JR.
GOVERNOR

August 19, 1982

President Ronald Reagan
The White House
Washington, D. C. 20500

Dear President Reagan:

The recent devaluation of the Peso, the second this year, has severely affected the California border communities of Calexico, El Centro, Chula Vista, National City and San Diego. The economies of the border cities in California and in Baja California are clearly interdependent. Negative economic conditions on either side of the border affect the economy of the other. The unemployment, business cutbacks and closures on the U.S. side have hurt the Mexican as well as the U.S. border economies.

Devaluation of the Mexican currency has created a special problem for U.S. border businesses which must wait for a stabilization of exchange rates and the eventual return of Mexican customers as they become accustomed to paying a higher rate of Pesos for U.S. goods. Business for firms in these areas is down from 40 percent to 60 percent. These firms are in need of emergency loans to assist them through this transitional period. The Federal Economic Disaster Loan Program has been eliminated and is no longer available to provide such assistance.

I urge you to establish by Executive Order a new Economic Disaster Area Program which would enable business firms to receive low interest loans to assist them during this crisis. I further urge that you declare San Diego and Imperial counties an economic disaster area, eligible for assistance through this program.

Sincerely,

Edmund G. Brown Jr.
GOVERNOR

# Brown Seeks Border Aid After Peso Devaluation

8/28/82

SACRAMENTO (AP) — Gov. Brown asked yesterday for federal emergency aid to help California businesses along the Mexican border that are being hurt by devaluation of the peso.

Richard Steffen, the governor's press depufy, said Brown also was considering asking the Public Utilities Commission to approve temporarily lower rates for border businesses, "since business is down and utility rates are up."

In a letter to President Reagan, Brown asked that San Diego and Imperial counties be declared an economic disaster area, and thus eligible for federal assistance.

Brown said U.S. border firms are suffering financial problems and need emergency loans. He complained that the Federal Economic Disaster Loan Program has been eliminated, and asked Mr. Reagan to establish "a new Economic Disaster Area Program that would enable business firms to receive low-interest loans to assist them during this crisis."

The devaluation of the peso, the second of this year, has severely affected businesses in the California border communities of Calexico, El Centro, Chula Vista, National City and San Diego, Brown said.

"The economies of the border cities in California and in Baja California (in Mexico) are clearly interdependent," Brown wrote.

He said U.S. border businesses "must wait for a stabilization of exchange rates and the eventual return of Mexican customers as they become accustomed to paying a higher rate of pesos for U.S. goods."

"Negative economic conditions on either side of the border affect the economy of the other. The unemployment, business cutbacks and closures on the U.S. side have hurt the Mexican as well as the U.S. border economies," he said.

Brown acted after the Calexico City Council voted Tuesday night to ask him to send a letter to Mr. Reagan.

Arizona Gov. Bruce Babbitt asked Mr. Reagan in a letter last week to approve low interest Small Business Administration loans to aid merchants in the four Arizona counties bordering Mexico.

Babbitt asked that the counties be declared disaster areas because of drastically reduced trade resulting from the recent peso devaluation.

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 0530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

AUGUST 27, 1982

PETITION

EDMUND G. BROWN,

GOVERNOR OF THE STATE OF CALIOFRNIA:

THE UNDERSIGNED BUSINESS PERSONS BY MEANS OF THIS PETITION REQUEST YOUR INTERVENTION ON THE PESO DEVALUATION CRISIS BY DECLARING THE SOUTHBAY AREA IN SAN DIEGO COUNTY A DISASTER AREA DUE TO ECONOMIC DISLOCATION AND BASED ON THAT ACTION TO FACILITATE AND PLAN A SOLUTION TO THE PROBLEM ON EMERGENCY AND FUTURE TERM BASIS.

| | |
|---|---|
| Alberto R. Garcia | 318 E. San Ysidro Blvd |
| BUSINESS | ADDRESS |
| Consultant | (714) 428-2765 |
| SIGNATURE | PHONE |
| UPI Enterprises | 1663 Dairy Mart Rd San Ysidro |
| BUSINESS | ADDRESS |
| Owner | (714) 428-5043 |
| SIGNATURE | PHONE |
| Fountain Corona Travel | 514 E. San Ysidro Blvd. |
| BUSINESS | ADDRESS |
| | (714) 428-0243 |
| SIGNATURE | PHONE |
| Alicia L. Rodriguez | (714) 428-39-82 |
| BUSINESS | ADDRESS |
| Medina Fashions | 358 San Ysidro Blvd. |
| BUSINESS | ADDRESS H 428 5508 |
| Concepción Medina | 428013C |
| SIGNATURE | PHONE |
| China Inn Restaurant | 551 E San Ysidro Blvd. |
| BUSINESS | ADDRESS |
| | 428.2259 — 428.2350 |
| SIGNATURE | PHONE |

| BUSINESS | ADDRESS |
|---|---|
| [illegible] | 660 LA SAN YSIDRO |
| SIGNATURE | PHONE Chula Vista Ca |
| Carmen Cruz | 675 LA DISTRICT |
| BUSINESS | ADDRESS |
| Roberta Hansen Gutierrez | 674 San Ysidro Boulevard |
| SIGNATURE | PHONE 425-5948 |
| Jose M Vazquez | 618 E Street Chula Vista Calif 92010 |
| BUSINESS | ADDRESS |
| Rafael Garcia | 323 E. SAN YSIDRO |
| SIGNATURE | PHONE 422-8772 2501 Faure St. |
| Sandra Clara Clark | C.V. 92011 |
| BUSINESS | ADDRESS 422-8775 |
| J C. Towing | 2501 Faure St. |
| BUSINESS | ADDRESS |
| Lucille LaCroix | 4630 BORDER VILLAGE RD. |
| SIGNATURE | PHONE 519 E SAN ISIDRO BOULEVARD |
| Javier Parra | Lorena's Boutique 428-04-60 |
| BUSINESS | ADDRESS |
| Gabriel Lopez | 428-2015 |
| SIGNATURE | PHONE |
| Los Panchos Taco Shop | |
| 362 E. San Ysidro Bl. San Ysidro Ca. 92073 | |
| BUSINESS CASILLAS GLASS & MIRROR | ADDRESS 428 2929 |
| 111 W. OLIVE DR. SAN YSIDRO, CAL | |
| SIGNATURE | PHONE 4285358 |
| Belen Rebeliza 31 Nunez | |
| 369 E. San Ysidro Blvd. | |
| BUSINESS | ADDRESS |
| Lady M Fashions | 416 W. San Ysidro Blvd. San Ysidro Ca 92073 |
| SIGNATURE | PHONE 428-1014 |
| Margarita Rubalcaba | |
| BUSINESS | ADDRESS CERDA |
| | 428-5122 |
| SIGNATURE | PHONE |
| Aztlan Meat Mkt | 524 E San Ysidro Blvd Suite C |
| BUSINESS | ADDRESS |

| BUSINESS | ADDRESS |
|---|---|
| SIGNATURE | PHONE |
| Mancillas And Son. Honest Humans - | 428-25-25 |
| BUSINESS | ADDRESS |
| | 428-2525 |
| SIGNATURE | PHONE |
| Tepeyac Corp. | 3538 Beyer Blvd #52 |
| BUSINESS | ADDRESS |
| Margaret Solano | 428-1894<br>428-3352 |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| CENTURY FASHIONS | 368E San Ysidro Blvd SY. |
| BUSINESS | ADDRESS |
| Chung Yu | TEL 428-0308 |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| Maria's Shapes | 6931695 |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| Mexicano Union Bc | 428-5100 |
| SIGNATURE | PHONE |
| | 674 E. San Ysidro Blvd<br>San Ysidro CA |
| BUSINESS | ADDRESS |
| Gloria Salas | 428-2387 |
| SIGNATURE | PHONE |
| Medinas Fashions #2 | 575-9737 |
| BUSINESS | ADDRESS |
| Letricia Kier | 427-1080 |
| SIGNATURE | PHONE |
| Kier Co. | 3064 Main St. |
| BUSINESS | ADDRESS |

| BUSINESS | ADDRESS |
|---|---|
| International Gift Shop | 618 E ST #4 Chula Vista CAL |
| SIGNATURE | PHONE |
| Lori d'Vergara | 425-5948 |
| BUSINESS | ADDRESS |
| Celia Lopez | 422-9147. |
| SIGNATURE | PHONE |
| Baja Parts & Equipment | 1074 Broadway Chula Vista Ca 92011 |
| BUSINESS | ADDRESS |
| Jose De Jesus | (714) 425-5324 |
| SIGNATURE | PHONE |
| MONFORT WORLD TRAVEL | 514 E. SAN YSIDRO BLVD. |
| BUSINESS | ADDRESS |
| Laura Marquez | (714) 428-0293 |
| SIGNATURE | PHONE |
| [illegible] | [illegible] |
| BUSINESS | ADDRESS |
| Romero Imports & Exports | " " |
| SIGNATURE | PHONE |
| Toshi Fashions 5249 San Ysidro | 4285507 |
| BUSINESS | ADDRESS |
| Laura Gonzalez | |
| SIGNATURE | PHONE |
| Country Rhode Ford | 2811 Otay St Nat'l City |
| BUSINESS | ADDRESS |
| Joel Kennedy | |
| BUSINESS | ADDRESS |
| Manuel Diaz | 428-4921 |
| SIGNATURE | PHONE |
| 111 W Olivia Ave | San Ysidro CA |
| BUSINESS | ADDRESS |
| | |
| SIGNATURE | PHONE |

318 E. San Ysidro Blvd.
San Ysidro Calif. 92073

Tel. (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

May 27, 1982

Jim Bates, Supervisor
Fourth District Clerk
County Board of Supervisors
1600 Pacific Highway
San Diego, CA 92101

Dear Mr. Bates:

The purpose of this letter is to call your attention a major recurring economic problem that is adversely affecting most business along the Southwest border and in particular our county. I am referring to the devaluation of the Mexican peso. Although the full impact is yet to be felt, but sure to come, it is safe to say that lost jobs, lost income and business failures will become prevalent. Since the Mexican customer spends approximate 5 hundred million dollars per year in San Diego County, alone it is also safe to say that very few of us will be immune from this problem or its effects. This recurring economic problem will, as in the past, trigger other equally serious problems such as loss of revenue for city, county, state and federal government, increased costs for training displaced workers and even increase our welfare rolls.

Americans will continue to go into Mexico and spend large sums of money. However, Mexican nationals, because of the rate of exchange, will be very reluctant to shop in our country, especially if our businesses are hard to find and not competitive. This most certainly will adversely affect our balance of trade. The resulting weakened economy will be even more costly and damaging to out nation in terms of lost production, lost jobs and lost skills.

The tragedy of this economic situation and the steadily worsening condition can and must be stopped and reversed. To do this the

County Board of Supervisors must immediately exercise its sovereign power and declare this condition to be a disaster so that the State can begin its legitimate work within the context of existing legislation to help those businesses that were truly adversely affected, satisfy all criteria, and desire assistance. The assistance should include:

- Direct low interest loans
- Loan guarantees
- Stretch out payments
- Relocation loans

If we insist that each individual has the responsibility to play a productive role in society, then when some actually go beyond that level of responsibility and with their own money, prosperity drive, entrepreneurship, and time, create jobs and fill a void in products and/or services; and, if through no lack of their own energy or ingenuity, they are faced with the danger of their business being destroyed; then it is up to us to provide encouragement and whatever temporary assistance is necessary during their readjustment period.

If the County Board of Supervisors act decisively, and correctly defines the problem for what it is, we can immediately reverse this deplorable situation and get once threatened businesses back on the road to a more productive American.

Enclosed you will find a petition circulated among businesses in the area, this will enable your board to establish direct contact with some of affected businesses. If our chamber can assist in any way to ascertain or define the needs to solve the problem, please contact us immediately as we consider this matter an emergency situation and it should be handled as such.

Sincerely,

Raul Andrade

Raul Andrade
President

Enclosures

c.c. Tom Hamilton, 1st. District Roger Hedgecock, 3rd. District
Paul Fordem, 2nd. District Paul Eckert, 5th. District

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

PETITION

THE INTERNATIONAL CHAMBER OF COMMERCE OF SAN YSIDRO HAVE TAKEN THE INITIATIVE TO CIRCULATE THIS PETITION AMONG THE SMALL BUSINESSES LOCATED IN THE SOUTHBAY AREA. DUE TO THE FACT THAT THE PESO DEVALUATION HAS AFFECTED OUR BUSINESS BY A DECREASE ON SALES OF APPROXIMATELY 50%.

.THE UNDERSIGNED PERSONS ARE ESTABLISHED BUSINESS PEOPLE IN THE SOUTHBAY BORDER REGION AREA WHO DEPEND ON CUSTOMERS FROM MEXICO FOR SURVIVAL. BY MEANS OF THIS PETITION WE ARE SEEKING SOME TYPE OF RELIEVE UNDER THE S.B.A. POLICY OF ECONOMIC DISLOCATION.

Mexfast world Travel Agency 318 E San Ysidro Blvd
BUSINESS ADDRESS

[signature] 428-0293
SIGNATURE PHONE

[signature] 428-2565
BUSINESS ADDRESS

318 E San Ysidro Blvd San Ysidro CA 92073
SIGNATURE PHONE

218 W OLIVE AL. SAN YSIDRO CA 92073
BUSINESS ADDRESS

[signature] 428-2929

318 E. San Ysidro Blvd
San Ysidro Calif. 92073

Tel (714) 428-8530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

| BUSINESS | ADDRESS |
|---|---|
| CHECKER AUTO # 2220<br>364 E. SAN YSIDRO BLV.<br>SAN YSIDRO, CA 92073 | |
| SIGNATURE | PHONE |
| [signature] | 428-5140 |
| BUSINESS | ADDRESS |
| CENTURY FASHION<br>368 E. San Ysidro Blvd.<br>SAN YSIDRO, CA 92073 | |
| BUSINESS | ADDRESS |
| | |
| SIGNATURE | PHONE |
| Gloria Ochoa | 428-03-08 |
| BUSINESS | ADDRESS |
| SAN YSIDRO DELICAT... | |
| SIGNATURE | PHONE |
| Maria Guadalupe Lainez | 428-5420 |
| BUSINESS | ADDRESS |
| PORTER INTERNATIONAL INC. | 372 E. San Ysidro Blvd. San Ysidro, Ca |
| SIGNATURE | PHONE |
| Esther Chavez | 428-2223 |

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel. (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

| BUSINESS | ADDRESS |
|---|---|
| AGENCIA GUTIERREZ, INC.<br>4480 J CAMINO DE LA PLAZA<br>SAN YSIDRO, CA. 92073 | |
| SIGNATURE | PHONE |
| [signature] | 428-1165 |
| BUSINESS<br>Leonel Tenes Customhouse Brokers<br>4490 L. Camino de la Plaza<br>San Ysidro CA 92073 | ADDRESS<br>[signature]<br>428-3024 |
| BUSINESS<br>PAY TO THE ORDER OF<br>CALIFORNIA COMMERCE BANK<br>SAN YSIDRO, CALIF.<br>FOR DEPOSIT ONLY<br>TO THE CREDIT OF<br>[illegible] 4541 B. CAMINO DE LA PLAZA | ADDRESS |
| SIGNATURE<br>Ralph J. Vary | PHONE<br>428-2641<br>428-5721 |
| BUSINESS<br>ADI SPORTS, INC.<br>4630 D BORDER VILLAGE RD.<br>SAN YSIDRO, CA. 92073<br>(714) 428-2333 | ADDRESS<br>428 2333 |
| SIGNATURE<br>[signature] | PHONE |
| BUSINESS<br>BORDER VILLAGE FUN FACTORY | ADDRESS<br>4630 BORDER VILLAGE RD<br>SUITE E SAN YSIDRO |
| SIGNATURE<br>Linda Lolicers | PHONE<br>428-5142 |

7

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

| BUSINESS | ADDRESS |
|---|---|
| | |
| SIGNATURE | PHONE |
| Daniel Mora | |
| BUSINESS | ADDRESS |
| ANDRADE'S INTERIORS<br>CARPETS DRAPES<br>2393 FLAX DR.<br>SAN DIEGO CA 92159<br>TEL. 575 9881<br>575-1679 | |
| BUSINESS | ADDRESS |
| | |
| SIGNATURE | PHONE |
| Paul Andrade | |
| BUSINESS Classy International Optical Supplies<br>444 Sc. "H" Cuenca 84 de Plaza<br>San Ysidro, Ca. 92173 | ADDRESS<br>(714) 438-3179 |
| SIGNATURE Delia Cobello | PHONE |
| BUSINESS La Bodega de Vino<br>4442 Camino de la Plaza<br>San Ysidro, Ca. 92173 | ADDRESS<br>Lina R. Nimmons (714) 425-2475 |
| SIGNATURE | PHONE |

318 E San Ysidro Blvd
San Ysidro Calif 92073

IOCSY

Tel (714) 428-9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

SOS ELECTRONICS SUPPLY
TV REPAIR
2260 Main St., # 10
Chula Vista 423-1135
BUSINESS

ADDRESS

SIGNATURE

PHONE

LORIC'S WAREHOUSE
2260 MAIN ST. UNIT 4
CHULA VISTA, CA. 92011
423-3568
BUSINESS

ADDRESS

NORM PRESSLEY DIESEL PARTS
2260 MAIN ST., SUITE 1 & 2
CHULA VISTA, CA 92011
PHONE (714) 423-0931
BUSINESS

ADDRESS

SIGNATURE

PHONE

428-6667
ADDRESS

L & L Foreign Car Supply
PHONE 428-2885
338 W. SAN YSIDRO BLVD.
SAN YSIDRO, CA. 92173
SIGNATURE

PHONE 428-2885

International Camera
BUSINESS

4464 Camino de la Plaza.
ADDRESS

Michael Gonzalez Mgr. 428-4483.
SIGNATURE

PHONE

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 0530

International Chamber of Commerce of San Ysidro
de Comercio Internacional de San Ysidro

M & M HARDWARE
185 VIRGINIA AVE.
SAN YSIDRO, CA 92073
428-2288

| BUSINESS | ADDRESS |
|---|---|
| | |
| SIGNATURE | PHONE |
| SPROUSE-REITZ CO., INC. #814<br>197 VIRGINIA AVE.<br>SAN YSIDRO, CA 92073 | |
| BUSINESS | ADDRESS |
| | |
| BUSINESS | ADDRESS |
| | 428-1448 |
| SIGNATURE | PHONE |
| Royal Store | 630 San Ysidro Blvd. |
| BUSINESS<br>A-N-A PHOTO & APPLIANCE<br>2248 Main Street<br>Chula Vista, CA. 92011 | ADDRESS |
| SIGNATURE | PHONE |
| Chevron Company<br>2210 Main St., No. 17<br>Chula Vista, Ca. 92011<br>575-0056 | |
| SUN ASIAN CAFE<br>2260 Main St. Unit A1<br>Chula Vista, Calif. 92011<br>423-5544 | ADDRESS |
| SIGNATURE | PHONE |

378 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

SAN YSIDRO MONEY EXCHANGE, INC.
378 E. San Ysidro Blvd.
San Ysidro, CA 92073

| BUSINESS | ADDRESS |
|---|---|
| TOOL COMPANY INC. | 428 6677<br>4650 BORDER VILLAGE<br>SUITE 210 S.Y. |
| SIGNATURE | PHONE |
| | 428-4026 |
| BUSINESS | ADDRESS |
| TOSHI FASHIONS, | 524B East San Ysidro Blvd SD. 92073 |
| SIGNATURE | PHONE 428-5537 |
| BUSINESS | ADDRESS |
| Carlos Meat Market | 428 5122 |
| SIGNATURE | PHONE |
| BUSINESS | 521 E. San Ysidro Blvd<br>ADDRESS San Ysidro Calif 92073 |
| EX. IM IND.<br>Juan Rodriguez (714) 428 6677 | 4650 BORDER VILLAGE ROAD<br>SUITE 210 SAN YSIDRO CA 92073 |
| SIGNATURE | PHONE |

318 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 6530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

| | |
|---|---|
| Chuck's Taco Shop 326 ESAN-YSIDRO BLVD. | 428-0787 |
| BUSINESS | ADDRESS |
| [illegible] | 428-0787 |
| SIGNATURE | PHONE |
| [illegible] | 428-6380 |
| BUSINESS | ADDRESS |
| [illegible] | 428-6380 |
| BUSINESS | ADDRESS |
| [illegible] | [illegible] |
| SIGNATURE | PHONE |
| [illegible] | [illegible] |
| BUSINESS | ADDRESS |
| [illegible] | 428-4415 |
| SIGNATURE | PHONE |
| 325 East San YSIDRO BLVD. | |
| BUSINESS | ADDRESS |
| [illegible] | 428-3874 |
| SIGNATURE | PHONE |

318 E. San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

# ICCSY

*International Chamber of Commerce of San Ysidro*
*Camara de Comercio Internacional de San Ysidro*

| | |
|---|---|
| BUSINESS [illegible] | ADDRESS [illegible] |
| SIGNATURE [illegible] | PHONE [illegible] |
| BUSINESS THE RAINBOW DIET CORP. 4630 - F BORDER VILLAGE RD. SAN YSIDRO, CA 92073 PH 428-3488 | ADDRESS |
| BUSINESS [illegible] | ADDRESS |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| SIGNATURE | PHONE |
| BUSINESS MEMO'S SHOP 117 D W. SAN YSIDRO BLVD. SAN YSIDRO, CA 92073 428 2548 | ADDRESS |
| SIGNATURE [illegible] | PHONE 428 2548 |

321 E San Ysidro Blvd
San Ysidro Calif 92073

Tel (714) 428 9530

International Chamber of Commerce of San Ysidro
Camara de Comercio Internacional de San Ysidro

| | |
|---|---|
| Esteban Gutierrez | San YSIDRO BLVD 321 |
| BUSINESS | ADDRESS |
| La Bata de oro | Tel. 428-0261 |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| BUSINESS | ADDRESS |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| SIGNATURE | PHONE |
| BUSINESS | ADDRESS |
| SIGNATURE | PHONE |

[From the Star-News, Aug. 26, 1982]

## PESO CRISIS HITS SAN YSIDRO BUSINESS

### MERCHANTS SAY "THE DECREASE IS ON THE INCREASE"

(By Laura Heywood)

An eerie calm pervades the streets of San Ysidro, a town billed as the busiest land border crossing in the world.

Last year, an estimated 35 million people crossed the border legally to come to California. And, according to the San Ysidro Chamber of Commerce, 80 percent of them stopped to do some shopping in San Ysidro.

Today, fewer are crossing and even fewer are spending money in local shops in San Ysidro. Mexican currency, which is worth only about half of what it was in dollars just six months ago, won't go very far.

Merchants in San Ysidro, who depend on the border clientele for 90 percent of their business, are suffering. It's not something many like to admit, but it's there. It's in the vacant stores, in the empty parking lots and in the lightness of the cash box at the end of the day.

"The decrease is increasing," said Dick Dubuque, the manager of Longs Drug store in San Ysidro. He said his store usually gets more than 70 percent of its business from across the border; this past week his sales were down 33 percent.

He expects the sales drop to be 40 percent next week. He's cut most of his 20 full-time employees back to 32 hours a week, and has transferred a few out to Longs outlets in Chula Vista and Sweetwater.

Layoffs are the next step, he said.

While Dubuque's situation is grim, he's lucky. Longs is a corporation that can sustain losses at one store, because business is good at others.

Hardest hit by the peso devaluation are the independent merchants.

According to one merchant, eight small businesses have folded in the last three months, all because they couldn't operate due to losses directly tied to the peso, which was devalued by the Mexican government in February, and again last month.

"Three or four years ago, there was no space available to rent," said Jake Yufe, manager of El Progreso, a small store that sells electronic equipment and clothing.

"I even heard of someone paying $100,000 to reserve a space. Now there are so many unrented spaces.

"Business for the future looks foreboding, bleak and ominous," he said. He has cut all 10 of his employees to half-time and agrees layoffs are the next step.

"It's the worst I've ever seen it," said Lupe Palacios of Henry's TV on San Ysidro Blvd., which has been operating in San Ysidro for 20 years. She and her husband, the owners, depend on Mexico for at least 90 percent of their business. Since the latest peso devaluation, she said the only thing keeping the business alive is repair work.

She has stopped taking pesos and, even though she admitted it might hurt the business, the store just can't afford to take the risk.

"Earlier in the week, three customers had called me to say they couldn't pay their bills because they couldn't get ahold of any dollars," she said.

The store on San Ysidro Blvd. is surrounded by small retailers who all report the same thing: Business is nil, getting worse every day, and they don't see any immediate relief. Within the one block area, four stores stand empty with large "For Rent" signs in the windows.

Business and customers alike are paralyzed, said Albert Garcia, president of the International Chamber of Commerce in San Ysidro, because they have dollar accounts in Mexico.

Since a decree by the Mexican government, dollar accounts can only be withdrawn in pesos from Mexican banks, at a rate of 69.50 for each dollar.

He estimates those accounts to be worth some $12 billion and also estimates that 80 percent of Mexicans keep their money in dollar accounts, that used to be protected from peso devaluation.

One import/export businessman, Arthur Scolari, owner of Scolari Lopez, Inc. in San Ysidro, estimates he is taking back about 95 percent of the merchandise he ships to Mexican businesses, because they have no dollars to pay for it.

A lot of merchandise is shipped cash on delivery, he said, and freight charges are usually due with delivery. He said he is out at least a half a million dollars in outstanding freight charges alone, since the dollar accounts became frozen two weeks ago.

His business, the largest exporter to Mexico in San Ysidro, generally runs about 20 loads a day headed south of the border. Now it is running barely one a day, or one every three days, he said, which has forced him to lay off 30 employees since the February devaluation.

The Chamber of Commerce in San Ysidro reports it hasn't heard of any businesses shut down in the last couple of weeks. A survey taken by president Elsie Zuniga, however, shows that business is down anywhere from 35 to 80 percent. She said most businesses are trying to hold tight and are hoping some government relief might be on its way.

And their hold on business may be tenuous. Just 100 miles down the road in Calexico, 20 percent of businesses have been forced to shut their doors because of the recent peso devaluation that has brought their sales to a virtual halt.

Feeling safety in numbers, merchants in San Ysidro are meeting, but in many cases it's to pool frustrations and fears or to state the obvious—they need relief.

Gov. Jerry Brown, in town last week to discuss the economic effect of the peso devaluation, has promised local merchants he'll be back, hopefully with something that will reassure them about their economic future.

About 20 businessmen from Mexicali, El Centro and San Ysidro, and representatives of the Chamber of Commerce in Calexico and the International Chamber of Commerce in San Ysidro all met for about 45 minutes with the governor last week to tell him of an "economic disaster" along the border.

After the meeting, he sent a telegram asking President Ronald Reagan to declare the border an economic disaster area, which would make low-interest loans available to small businesses. Reagan said the matter is being looked into.

However, no federal program for economic aid now exists for situations like the one along the border. Most aid is available for natural disasters such as earthquakes or floods.

Merchants are meeting this week at the Chamber of Commerce in San Ysidro to draft a resolution that declares their need for low-interest loans.

Then they return to their nearly empty stores.

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[From the San Diego Union, Sept. 14, 1982]

## Mexico Will Aid Investors Caught in Dollar Pinch

(By Fred Muir and Arthur Golden)

The Mexican government will soon create a trust fund to pay mortgages on U.S. real estate held by Mexican citizens who face foreclosure because they are unable to obtain dollars, a top Mexican official revealed yesterday.

But, the official said, the trust fund will handle the mortgage payments only if the real estate is immediately offered for sale, and the proceeds returned to the dollar-starved Mexican government. The government will keep the dollars, and pay off the former property holder in pesos.

Bankers and real estate agents here said that while some Mexican citizens will be forced to draw from the special fund, other Mexicans will meet mortgage payments in the United States by disobeying their government's currency control laws.

Under laws announced over the past two weeks, Mexicans are forbidden to hold dollars or send money outside the country without special dispensation from the government—except for a monthly allotment of approximately $40 that can be physically carried across the border.

The regulations are an attempt to deflect the flight of dollars from the Mexican economy, now suffering its worst crisis in 70 years.

In disclosing the fund, Mexican presidential press secretary Francisco Galindo Ochoa called it "a serious, important" measure, designed to help Mexicans "rescue what they have invested" in U.S. real estate.

Galindo said the Bank of Mexico and the Treasury Secretariat were organizing the funds, which he said would begin operations "in a short time," possibly in a few months.

The fund will deal only with real estate, Galindo said, and will not help with payments on cars or other consumer items acquired by Mexicans in the United States.

The plan for the fund dramatizes the problems of thousands of Mexicans who may have to give up their San Diego real estate investments, or lose them.

"It's time to go shopping for La Jolla real estate," said Gary London, vice president of the Sanford Goodkin Research Corp. in evaluating the combined impact of

the currency restrictions and the Mexican government's latest offer to help strapped property owners.

"There's going to be some busy brokers in that part of town," he said, referring to the unusually high concentration of properties owned by Mexicans in that affluent section of San Diego.

Max Schetter, director of research at the Greater San Diego Chamber of Commerce, estimated that Mexicans could own from 5 percent to 10 percent of all properties in San Diego County.

But in some areas—such as La Jolla, Bonita and Coronado—that figure could be as high as 30 percent to 40 percent of all land sales in the past several years, according to real estate brokers.

"For the past several years, brokers in La Jolla have subsisted on Mexican clients," said Athena Harmon, a partner in a diversified La Jolla real estate company of Harmon Cos.

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[From the San Diego Union, Sept. 14, 1982]

## STATE URGED TO SEEK A LONG-TERM SOLUTION TO HELP BORDER BUSINESSES

(By Diane Lindquist)

State legislators were told yesterday to seek long-term solutions to help California border businesses suffering as a result of Mexico's economic crisis because hard times could last as long as two years.

Experts told members of the Assembly Committee on Economic Development and Planning and other legislators here on a fact-finding mission that short-term solutions, such as the Small Business Administration loans currently available, will act only as a "Band-Aid on the wound" and may further bury the merchants whom the measures are designed to help.

Homero Reyes, a San Ysidro business consultant and economist with the Baja California State Development Council, said the effects of the Mexican foreign exchange controls are likely to be felt among businesses catering to Mexicans for at least 12 to 18 months.

Norris C. Clement, a San Diego State University economist, estimated the effects would last 18 to 24 months.

"I think if you're talking about something that's more than 12 to 24 months, probably loans are not going to do the trick. And probably those who have been most hurt will be least benefitted by the loan program because they will be least apt to recapture their consumers."

Charles Lum, assistant director for finance in the Small Business Administration, said agents in San Ysidro and Calexico have handed out 175 loan applications. The agency is making $200 million available at about 14¾ percent interest to merchants whose business has suffered from the recent Mexican devaluations and currency controls.

He said that by last Friday, the SBA had received three applications totaling $250,000, but he expected more in the next few months as the full effects are realized.

Economists estimate losses in San Diego County as a result of the Mexico crisis could be as high as $250 million in retail sales, $15 million in tax revenue and increased unemployment.

"I would say honestly that many companies in San Ysidro and Calexico would have to go bankrupt," Reyes said. "They cannot stay in business. Why? Because their consumer is not American, it's Mexican."

"I was hoping this was going to be a rather short-term problem," said Assemblyman Don Rogers, a Bakersfield Republican who is the committee chairman, "but from what I hear from these expert witnesses it appears this is not going to be something that fades away in the next few weeks."

### BACKERS PLAN WALK-A-THON

Supporters of the nuclear weapons freeze initiative, Proposition 12 on the November ballot, will sponsor a walk-a-thon Saturday, Oct. 2, at Morley Field. The event begins at 8 a.m.

Individuals or groups who wish to participate are asked to contact Joe Houde at 282-4726.

[From the San Diego Union, Aug. 31, 1982]

BRADLEY VISITS SAN YSIDRO, HEARS MERCHANT WOES

(By R. H. Growald)

Los Angeles Mayor Tom Bradley visited the Mexican border for 28 minutes yesterday, listening to peso complaints by San Ysidro merchants and following the trail of other November election candidates.

The Democratic candidate for governor marched from the Cali-Tex Grocery to Koby's Shoe Store to Shermo Electronics to the New China Inn restaurant and then told reporters he had written President Reagan and the California congressional delegation for emergency aid to border businessmen.

He declined lunch at Alonzo Hernandez' Chinese restaurant and left in an auto for Lindbergh Field for a flight to San Francisco. A crowd of 20 curious people, including children, who had tailed the mayor for a block down San Ysidro Boulevard wandered off.

Two days earlier Bradley's Republican foe, Attorney General George Deukmejian, and GOP Congressmen Duncan Hunter and Clair Burgener had walked the same street of shopkeepers' sorrow. San Diego Mayor Pete Wilson, the Republican candidate for the U.S. Senate, and his Democratic rival, Gov. Brown, sampled similar border blues earlier.

What Bradley called "this human tragedy" was expressed by Manuel Bangelas and his son Jadier, owners of Cali-Tex. "It is very difficult to survive," the father told the mayor. Almost all his customers used to come from Mexico. Now, with the peso fallen low, his customers cannot afford to cross the border and come up San Ysidro Boulevard.

Arthur Scolari, freight hauler of San Ysidro, tapped an arm of the mayor's blue Palm Beach suit.

Bangelas said his business was down by about 45 percent. "Each closing time, I wonder how many more days I can stay open," he said.

"It is closing time in San Ysidro," said Scolari.

Bradley nodded.

Across the street, at Koby's, manager Fausto Ruiz said 80 percent of his customers used to come from Mexico. "I have laid off three of my seven employees."

Bradley nodded.

In Shermo, amid several hundred unsold portable radios, owner David Shrem said business was down 60 percent.

Bradley nodded.

At the New China Inn, owner Hernandez gestured to an empty dining room and said, "Lunch (business) is completely dead."

Bradley nodded.

The mayor then summoned reporters. He spoke of San Ysidro's "great economic loss." He said the area annually had done $500 million in business and all California will be hurt unless the business from south of the border comes back.

In his letter to Mr. Reagan, he called for re-enactment of the Small Business Act authority, repealed by Congress last year, allowing emergency loans to small-business men in just such circumstances.

Mr. MITCHELL. We would be pleased to hear from Mr. Briseno now.

## TESTIMONY OF JOSEPH V. BRISENO, COUNTRY PRIDE FOODS LTD., NATIONAL CITY, CALIF.

Mr. BRISENO. I am Joe Briseno. I represent Country Pride Foods in National City, Calif. It is a great pleasure to be here to tell you my problem. I am sure that you heard quite a few of them already today. Frankly, I can tell you I don't have a solution. All I have is just the thought that might be of some help, which you have already heard in the past.

The vehicle we don't have. The only thing that I have is figures I scribbled down here just before coming after Alberto called me, and the gentleman came to visit me last Friday.

Well, what I am going to refer to right now is just you might say dollars and pounds, because I am in the wholesale food industry. By pounds it means what people eat. Dollars mean what generates out of their hip pocket into the till.

The same week in 1980 I sold 514,000 pounds at a gross profit of $21,093. In 1981, 526,512 pounds; gross profit dollars of $27,720. Last week, the same week in November, a year later, 186,039 pounds; gross profit dollars, $5,280.

As you can well see the percentages are here. They don't have to be broken down into the finer percentage points.

What I am trying to say to you is in 1980 for me to open my doors, to put my people to work, it cost me for the work $11,431. In 1981, it cost me $12,043 to open my doors, to give my people employment. This year it cost me $14,202. Last week, with $5,000, I just cannot make it. So what I am trying to say in essence, I don't need a loan like most people do. All I need is a vehicle that may be a Federal agency such as the Treasury Department, so we can alleviate the problem, and that is to establish a fixed rate where people come from the other side of the border and continue to buy from us. Because we are here to do business, legal business, which is the food industry. The only thing I can say is if we do not have this vehicle, we are all going to be in trouble.

First of all, competition is what makes free enterprise. Without that competition we are going to be at the mercy of whoever is able to survive, and the fittest shall survive.

Back to what I was trying to say, if we don't find the vehicle, the people that will blackmarket the dollars, the people on the other side will be unable to eat. And what we are after is to keep our people healthy, and keep America healthy.

Thank you.

Mr. MITCHELL. Thank you.

Mr. GARCIA. Mr. Hernandez.

### TESTIMONY OF ALONZO R. HERNANDEZ, CHINA INN, SAN YSIDRO, CALIF.

Mr. HERNANDEZ. I am Alonzo Hernandez, from the San Ysidro area. I have some facts here. For the past 3 months my business actually decreased at a rate of 45 to 27 percent. I attribute most of my problems not to the devaluation, because I went through two devaluations and my business just recovered. But during the past 3 months, after the freeze of the dollar, is when I experienced the worst. Forty-seven percent the first month after the dollar was frozen, and it went down to 39 percent. Actually right now I am just hanging, waiting for December 1 to see what happens.

I am not here to ask for a loan, because I actually don't need any money. What I need is people to come to my place. If you go to San Ysidro at this time you can find a lot of traffic there, but these are people going to the money exchanges; that is, trading other dollars for pesos and then going back to Mexico where they spend the money.

One of the solutions I would like to see is to try to guarantee the small businessman in San Ysidro how to actually get pesos into dollars. In other words, what I am saying, if we can actually get a

stable rate in our place that we can advertise in Mexico so people can come across and purchase from us. In that way we can reverse those pesos to the bank and guarantee a dollar in our pocket.

That is all I have to say.

Mr. MITCHELL. Thank you.

### TESTIMONY OF ARTURO SCOLARI, SCOLARI-LOPEZ, INC., SAN YSIDRO, CALIF.

Mr. SCOLARI. I am Arturo Scolari, international freight forwarder. My business is solely on the international market, on trade, on wholesale.

I have prepared some figures that were requested from me from the movement I had last year to this year. But they are too many, and I think the panel will be a little bit tired if I would read them.

I can give you some totals. With the exception of Calexico, we serve the whole peninsula. We are exporters for customers, from Mexican individuals. We forward the merchandise they have purchased in the United States. I have a figure in three categories—the number of shipments, the pounds that we handle, and the advances and money that we have made on freight for our Mexican customers.

I think for the benefit of the panel, I would just read the figures comparable for 1981 to 1980, from August to date. In August 1981 we handled 3,100,373 pounds. We had 1,640 received in the warehouse. The advance we made were $140,217.36. We go to 1982, we received only 931,497 pounds. We had 775 shipments, and the output of money was $70,593.74.

In September 1981, we handled 3,186,464 pounds. We had 1,890 shipments, and the output was $165,494.14.

In September 1982, 420,273 pounds, 398 shipments, and output, $31,596.69.

The last month, October, we handled in 1981, 4,164,372 pounds, 2,147 shipments, and total output of $212,184.77. October 1982, 136,615 pounds, 339 shipments, $2,803.67.

This means that actually we, the United States, were not exporting anything.

My firm is the largest firm in San Ysidro on exports. We have seen it drop. I have gotten for your benefit a list, even though I didn't have the time to translate it into English, of all the new articles that Mexicali has entered for the free zone, because we all here in this audience depend on the free zone of Baja, Calif. Nobody has touched the subject, but that is the most important thing. It is a free zone. We will live from it, we trade with Mexico, all of us, almost 100 percent.

We have to remember also that the taxpayers are also the Mexicans. They come over, they spend $500 million in this area here, and they pay taxes. The Federal Government benefits by it, as do the city and the State. So actually the Mexican customer that comes across the border with his pesos or dollars is a taxpayer.

Even though sounding repetitious, my idea is that the peso along the border area should be accepted as currency. Of course, it would force the Mexican Government to establish a parity. This will enhance the trade with the Mexicans, and could be arranged in the

following manner. I think we gave Mr. Hunter this proposal: That the border merchant will deposit his pesos and they would be converted into dollars in the bank. The banks will give it to the Federal Government, who would in turn pay Mexico for petroleum or whatever it is, or demand the dollars in return, which is completely clear.

It is also advised that we make enough pressure to include Mexico in the GATT trade agreement so that the merchandise can easily flow freely in and out of Mexico and finish once and for all the captive market that industries have upon Mexico, where no other articles can be sold on an open competitive market. Thus we, the United States, cannot compete against those Mexican articles simply because of the negative restrictions for importation into Mexico, the requisite of entry, and the very high rate of duties that prevail in that country.

I think one of the most important items on the agenda is that the drop in border business not only hurt us, it hurt all over the country. It hurt people that build automobiles in Detroit. We exported into Mexico around 600 automobiles last year. Zip this year—no automobiles.

The manufacturer of trucks in Vancouver; the manufacturer of garments in New York; the manufacturer of fabrics in the South and so on.

This devaluation and the flotation of the peso should not be acceptable. We should help the Mexicans and help the new administration. We have very high hopes that they will really try to put Mexico on its feet, and that they are willing to continue to be trading partners with the United States.

Thank you very much.

Mr. MITCHELL. Thank you.

It is a difficult question for me to ask, but I have to put it to all of you gentlemen.

Each of you has testified as to the extent to which business has dropped. Mr. Briseno is operating recently at somewhere around $5,000 a week gross, and it is costing $14,000 to operate. Mr. Hernandez indicated, I think, a 47-percent decrease in business, and your business had dropped precipitously. It is a tough question, but I have to put it to you. Absent any immediate help in any form, how long can you hold out? Suppose nothing at all happens over the next 6 months, and you drop down from a $27,000 a week gross down to a little better than $5,000. How long could you hold out?

Mr. BRISENO. Probably until February at the most. But we are hoping like everybody else that with the new president taking office, there will be some drastic changes. That is the only thing we have in hope.

Mr. MITCHELL. I share that hope.

Mr. Hernandez.

Mr. HERNANDEZ. Mr. Chairman, a couple of days ago I contacted my landlord and told him I couldn't pay the rent. He said he would defer it until the new Mexican administration comes to power when we suspect change. I believe I can hold out for another 3 months.

Mr. SCOLARI. I started with 33 employees before the first devaluation in February. Right now I have 7½ day's wage. So actually I

have three and a half employees. I think I can last, if I can fire or let go of two or three of my employees, I can last 3 or 4 more months.

Mr. MITCHELL. I deliberately raised the question hoping that the record and whatever other coverage we get out of this will point to the absolute emergency situation we find. It is not a matter of sitting back and saying June 1983 maybe something can work. At best we are talking of 20 to 30 months' time. Unless something happens, businesses in which you have invested your lives and energy will be destroyed.

Mr. Siljander?

Mr. SILJANDER. If I am not mistaken, what I seem to hear from all of you are two basic things. One, we need to unfreeze the dollar. Two, we need a fair exchange rate. Of course, both of those things are in the hands of the Mexican Government and the new president. I guess the only thing I would tell you, if this is any encouragement at all, I am sure the chairman, if I may speak for him, and the committee will do all we can to influence our Government in influencing the Mexican Government to at least reevaluate their positions on both of these issues. That is about as best as my side of the aisle could hope to encourage you with, which is not much. I don't know what short-term assistance we can be as the SBA. I don't know what that is. There are so many alternatives which we can pursue. But I think you have to leave here with the realization that the best we can do is try to help influence Mexico through our respective contacts. I hope I am not speaking out of turn, Mr. Chairman.

Mr. MITCHELL. No. Maybe we ought to get bodacious and send in a request that the small business community be represented on the negotiating team. Why not. We have nothing to lose. It might be very advantageous for us to make that formal request, to let us be part of this negotiating team, to advocate for the plight of small business.

Mr. BRISENO. Mr. Chairman, I know we are all trying to find solutions. The worst problem I think that we have, that a lot of us face, is this, and I will give you a good example. A cashier's check, for instance, that was issued to me for the amount of $13,230 was returned to me through the Bank of America. It is a shame I missed that gentleman from the Bank of America here because I have done a lot of business with them.

Mr. MITCHELL. Perhaps he departed at a propitious time.

Mr. BRISENO. This particular check finally after 2½ months of negotiating, and I have several checks, was finally accepted by a Mexican bank. I was paid in pesos at 70 to 1. I have to come back across to the United States, and buy dollars on the black market. I lost on that particular check $4,320. By the same token, what I am trying to say to you, I have accounts receivable; I can live and survive. But I cannot survive because my accounts receivable on the other side of the border, they will not pay me due to the fact they cannot afford to pay me at 70 to 1, because they will still owe me 70 percent of the debt. This is a very critical point. I am sure if the dollars were unfrozen in Mexico, I am sure that everybody on this side that has been in business is astute enough to be able to survive the crisis. But the problem is they will not pay you due to the

fact if they pay you what they owe you, they will still owe you 50 percent of the debt. And they have no resource where to collect that money from.

Mr. MITCHELL. Thank you.

I am really very serious. Why don't we try drafting a letter asking that small business be represented as a part of the negotiating team with the Mexican and the U.S. Government. I don't think we have a thing to lose, and my impression is that small business is being lost in all of this negotiation.

Gentlemen, thank you very much.

Mr. GARCIA. Mr. Chairman, may I make a statement?

Mr. MITCHELL. Could I interrupt you gentlemen? Someone is waiting for me outside. Would you make your statement in my absence?

Mr. GARCIA. Yes.

Before we depart, I just want to emphasize to the committee that there are four points that are of interest. Many of these small businessmen have the interest of getting a loan. One way or another they need a loan if they are going to survive 6 months, or maybe it will take a year for the economy of Mexico, whatever we are going to do on this side of the border, to come back to what it was, reestablish itself. I think that the SBA, in what I have heard today, that they have the authority to lower the interest rates, I have been advised they did not have the authority. I was in Washington a couple of days ago and I met with the Deputy Director of SBA, and I was talking to him about this hearing today. From the words that I heard from him, it was that they did not have the authority to lower interest rates.

Mr. SILJANDER. Who did you talk to?

Mr. GARCIA. To Mr. Herrera, the Deputy Director. Hopefully this committee could do something to help out in lowering these interest rates for the small businessman to get these types of loans.

I don't know if there is some type of situation. I refer back to George and I have been discussing this situation, and I think George has also told us there is no way that SBA can lower these interest rates.

I want to clarify this, because I want to get it straight in my mind. If there is a possibility that SBA can lower these interest rates, to whatever amount they can.

Mr. SILJANDER. Well, if I can respond, I think the problem is that it would have to go through OMB. OMB, I am fairly sure, flatly rejected any request, or even potential requests to lower the SBA interest rate. So as a result maybe what the Department Deputy Director was suggesting to us is that it would be a futile attempt, rather than saying we do not have the legal means, which I think we do. It is just that it won't go through the OMB; David Stockman won't allow it. So I think that might be what his concern to you was, rather than saying it is not possible to do it; it is just not feasible to accomplish it.

In other words, we have the legal means, but not the political means.

Mr. GARCIA. I appreciate that and thank you very much. Of course my statement here does not mean that SBA has been giving me bad figures or anything. But I think it is important to clarify

that situation, because it came out here today that there is a possibility of lowering the interest rates and the press and some other people are going to catch on this; the man that is going to get down to the point is going to be Mr. Chandler. This is why I wanted to clarify it right now, because I think it is important, because all of us work directly with Mr. Chandler, and I think he should be vindicated in this manner.

Mr. SILJANDER. This gentleman has nothing to do with lowering interest rates. No. 2, it is possible, but it is not politically attainable in my opinion.

Mr. GARCIA. I see.

My other point would be, before we depart, that many money exchange houses are being established. In our area we have about 60 of them that are operating. To me, it is a situation that is getting out of hand. It is a situation that is not workable. It is a situation that anybody who pays $25 to the city gets a permit and opens up a business. They are going into the banking business.

I think there is some type of regulation that the Federal Government or maybe the U.S. Congress or maybe your committee can recommend that some type of operation or regulation could be established on these types of businesses, because what is happening right now is that they are in competition with the money exchanges on the other side of the border. Let's say Tijuana opens up at 110 for the dollar, the ones in San Ysidro on the American side are going to put 120 or 122. I think that as the merchants testified before, they cannot really trade in pesos, because they don't know what the exchange rate is going to be the next day.

And I heard a gentleman that testified before that in one day of operation he lost about $4,300 in trying to get his dollars back from pesos. And you gentlemen, with the material we have given you today, should look at this possibility of regulating the money exchange houses, because I think it is very important for our businesses.

Thank you very much.

Mr. SILJANDER. Thank you.

Mr. MITCHELL. Gentlemen, thank you very much.

Our last panel consists of Ms. Zuniga, Mr. Lopez, Mr. Currie, and Mr. McElfresh.

Thank you for taking the time to come to us. We are very grateful to you.

## PANEL CONSISTING OF ELSIE ZUNIGA; NICOLAS LOPEZ; KEITH McELFRESH; AND SHELBY CURRIE

### TESTIMONY OF ELSIE ZUNIGA, PRESIDENT, SAN YSIDRO CHAMBER OF COMMERCE, SAN YSIDRO, CALIF.

Ms. ZUNIGA. I am Elsie Zuniga, a real estate broker, president of the San Ysidro Chamber of Commerce. As a real estate broker, our business has been pretty bad. Last year it was dead. This year I have had a few sales, but with the devaluation I also lose a few.

As president of the chamber, we have seen how the devaluation has affected us. We also have seen a lot of people laid off. But the complaint we have at the chamber is to insist that our residents in San Ysidro patronize our businesses in San Ysidro instead of going

out of San Ysidro to do whatever buying they need. We found that it gives results, and that is what we are working on right now.

In the meetings I have attended, the items that keep recurring are to stabilize the peso and unfreeze the dollar. Those items come up constantly.

I thank you.

## TESTIMONY OF NICOLAS LOPEZ, HERMANOS LOPEZ, INC., SAN YSIDRO, CALIF.

Mr. LOPEZ. I am Nicolas Lopez. I represent Hermanos Lopez, which is a local business involved in wholesale and retail groceries. The following is the manner in which Hermanos Lopez, Inc. has been affected by the devaluation.

First, as a result of the first devaluation in February 1982 our sales volume dropped 27 percent. After the August 1982 devaluation our gross sales dropped this last time more dramatically. Today our monthly average gross sales represent 54 percent of what we were doing before the devaluation. This is a drop of 46 percent.

Second, and as a consequence of the above, we were forced to lay off personnel. Of the 93 total employees working for Hermanos Lopez before the devaluation, 44 have been let go. That is a 47-percent reduction of our work force. Those that were laid off are for the most part not getting work elsewhere.

Finally, the exchange houses that have been established in the San Ysidro area in the past month or two are providing dollars to customers at an ever-increasing high price in Mexican pesos. This further diminishes the value of the peso and, consequently, the buying power of prospective Mexican customers in the United States.

We feel that the Mexican peso will eventually find its level in relation to the American dollar and that it should and will do so after the supply-and-demand game is played out. But needless to say, we do not know when this will happen.

In conclusion, I would like to point out the main points of concern: One, that devaluation has caused loss of business, which means loss of sales; two, it has caused unemployment; three, it possibly will cause the closure of recently established businesses in San Ysidro; and four, the loss of business has been felt also in Los Angeles and other parts of the United States.

I would like to point out also that we obtained a 503 loan with the Small Business Administration to build our newest facility, which we opened in October of last year. Then 5 months after we opened, the first devaluation hit and since we have a very high mortgage payment, it really depressed us. Since the second devaluation I don't have to tell you we are in not financial straits but we are hard pressed to meet our commitments every month.

As a participant in a 503 package, we would like to stress the need for a moratorium on mortgage payments. Nobody knows how long this thing will go. It will be at least 1 year before things start to level out. We would like to stress that a moratorium be on those mortgage payments is needed.

Mr. MITCHELL. If my recollection is correct, the SBA already has the power to do this on a case-by-case basis, to impose a moratorium—I think I am correct in this—or can require just interest payments rather than payment on principal. So I suggest that you contact SBA. I am pretty sure they have the power to do that.

Mr. LOPEZ. We are aware of that. We have an application pending. However, we really would like to see that increased. I understand that 90 days is what SBA——

Mr. MITCHELL. I think it could be extended beyond that, if I recall properly. Is that correct?

Mr. POWERS. They can go up to five years depending upon the section of law that they choose. But SBA, as a matter of policy, wants to stay in contact with their borrowers to see how things are progressing. So depending upon the district office, it may be anywhere from 3, 4, 5, or 6 months. At the end of that time, the borrower will be reviewed again and will be given a further moratorium if things have not changed. But SBA does want a more frequent contact with the borrower rather than just simply giving a 2- or 3-year moratorium.

Mr. LOPEZ. It is understandable, and we welcome that.

Mr. POWERS. As far as we know, it will renew when the initial period is up if the circumstances are the same as justified it in the first place.

## TESTIMONY OF KEITH McELFRESH, TRUE VALUE HARDWARE, SAN YSIDRO, CALIF.

Mr. MCELFRESH. Our business is primarily a retail business. When we first started our business in San Ysidro, we noticed the trade was not coming across the border for the type of merchandise we had in our store, and we changed our merchandise to appeal more to the general population of San Ysidro. Fortunately, we have not extended credit across the border, so we don't have the problems that some of the other people that were here today have had. We find that our business, because of the first devaluation in February, has decreased approximately 10 percent per month for the first 3 months after February, and it tended to level off, and it started to come back again. And then in August it started off again with the second devaluation and went down approximately 10 percent per month, again leveling off after about 2 months.

We happen to be in a business where we still draw quite a bit of trade from Mexico, approximately 30 percent. Being in the auto parts business, there is still demand for auto parts there. We have tried to redirect our efforts in merchandising by changing our mix to the hardware business, and also to redirect our focus of attention on advertising in the San Ysidro area.

At present I don't have any programs that I wish to push for the Government to get into. At present we are able to hold our own. I think by directing efforts toward the San Ysidro community we will be able to hang in there.

Thank you.

Mr. MITCHELL. That is a good ray of hope, one of the few I have heard today.

Mr. Currie.

## TESTIMONY OF SHELBY CURRIE, CURRIE ENTERPRISES, SAN YSIDRO, CALIF.

Mr. CURRIE. I am Shelby Currie. I have been in business in San Ysidro for the past 20 years. However, I retired at the beginning of this year, but I am still active in the community.

Maybe there is a solution in addressing this group. We certainly appreciate your being here, especially at this late hour. I think our real complaint is with the Government of Mexico, which has been on a very socialistic trend for the past many, many years, and notably for the past 7 years.

There is a unique situation in that Mexico had accepted foreign currency deposits in their banks in dollars. I don't say you could open a yen account or a peso account in the United States, or in any other country in the world. So this unique situation has lured dollars into Mexico, and then they have been frozen, or cut off.

If they go back to a free trade system, where Mexico has a currency of pesos, and the United States has dollars, and there is a free exchange, I think the peso would float to approximately 100 to 1, because I think that is what the peso is worth. I believe Mexico could manufacture products and compete with other countries if they were able to sell their products at that exchange rate, a value of about 1 penny, as the value of the peso.

As far as the situation with SBA, I think one of the problems is many businesses in these dire circumstances have had to obtain loans from banks, as I did. Being able to do this on our own good credit, I obtained an unsecured loan, but the interest rate is around 22 percent. Now, if the SBA would allow refinancing, or would authorize loans to repay existing loans, which I understand is restricted now, they cannot do that, but this would improve the cash flow situations of many businesses which are faced with high payments on loans.

Mr. MITCHELL. I think you are right in spelling out that restriction. But there is a means by which that whole package could be rewritten in the event that SBA would agree to a lesser interest rate. Mr. Chandler, do you have a comment?

Mr. CHANDLER. Yes. There are two things that can be done, I believe, sir. One is that 80 percent of the existing debt can be refinanced through a guaranteed loan. I think that you can use our loans to bring your long-term debt current. In other words, if you have some past due debts, you can bring that current. You can pay off 80 percent of an existing loan with a guaranteed loan.

Mr. MCELFRESH. That would be very helpful. I have an office building which has enjoyed a 100-percent occupancy rate for many years, principally because it is located very close to the border in a high demand area. The building is now occupied at 66⅔ percent. It is 33-percent vacant due to business failures in the building, or loss of tenants. This is all since the devaluation.

I also have accounts receivable from Mexico which we just cannot collect, so our cash flow situation is desperate. We have reduced our employee situation by about 50 percent.

I talked to a number of other businesses before I came here, and the owner of the Radio Shack business in San Ysidro, a Tandy Corp. enterprise, a joint venture type of thing, told me that since

the devaluation—and he feels this is basically because of the dollar freeze—his business is off 36 percent. Other businesses, gas stations, report only maybe 10 percent loss of business. Many others are 20, to 30 percent off.

Thank you very much, Mr. Chairman.

Mr. MITCHELL. Thank all of you.

Ladies and gentlemen, it has been a long, hard day for you, and for us. Many times when we have these hearings in the field, I know after the hearing many people will come up and say, "Now, what do you intend to do?" Throughout the hearing we have tried to stress the limitations that are imposed on this committee, imposed by virtue of our jurisdiction or lack of jurisdiction in certain areas. For instance, in the tax area we have little or no jurisdiction.

But I would ask Mr. Powers of the staff to spell out the things that we have agreed to do as a result of this hearing, and it may well be once we get back into the Washington area we will sit down and think and there may be some other ideas to come forward.

Mr. POWERS. Mr. Chairman, my notes indicate what you and Mr. Siljander have discussed doing as a result of this hearing would be, first, that there be a joint committee letter composed to the President and signed by as many members of the committee as we are able to secure recognizing the fact that each member is in his own district somewhat relaxing after the election, requesting that the SBA be instructed or at least allowed by the executive branch to reduce the interest rates on SBA direct loans on a selected basis to those businesses which are hurt by the peso devaluation, so that the rate would be something less than the 14½ percent, which is the maximum now permitted by law.

Second, in regard to the current negotiations now underway with the Government of Mexico, and to be undertaken in the future, a letter be sent to the President requesting that small business be represented.

Mr. MITCHELL. And we might point out it could be representatives from this committee or a representative or representatives from the Office of Advocacy of the Small Business Administration or other personnel.

Mr. POWERS. Particularly in regards to the exchange rates and the problem it is causing the small business community.

Third, that we request SBA's chief counsel for advocacy to address the particular problems of the peso devaluation in his activities in working with Federal departments and agencies on this problem, and with particular emphasis on communicating with the Department of the Treasury, possibly with a view toward statutory change permitting amendments to 1981 tax returns to reflect bad debts occasioned by the peso devaluation.

And finally, you want all of these matters brought to the attention of the other congressional committees which would be basically the Commerce Committee, Banking Committee, and the Ways and Means Committee, that would have jurisdiction over a longer range solution primarily concerning the exchange freeze now in effect.

Mr. MITCHELL. Thank you very much. If I had a magic wand, believe me, I would bring the Mexican Government into this room, and I would bring our Government in and just lock the doors and say, "Stay in here until we get a solution." But we will follow through on those four matters. I guess the best thing to do is keep Mr. Chandler's office informed with copies of correspondence, so if there are questions that are raised by this, that information is available to you.

Mr. Siljander, do you have a closing statement?

Mr. SILJANDER. I think I have said throughout the hearing pretty much my sentiments. I have learned a great deal, coming from Michigan to the border of Mexico to learn some of your plight and your catastrophe you are going through. I will try to emphasize as one Member of Congress and one member of this committee as much as I can with you from the Republican perspective, as I am sure the honorable chairman will from his. And I am sure working together, from our diversified areas of political interest, I hope we will become of some help to you. That is in my heart to do so, what I can do to help you.

Mr. MITCHELL. Thank you. I will end it up by saying everyone that I deal with, whether it is a constituent in my district or a businessman who has a problem in Seattle, Washington, I can only make one promise. I cannot guarantee anything except I will do my absolute best to be of help. That's all I can guarantee. Maybe it will work.

Thank you very much for staying the afternoon.

[Whereupon, at 5 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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